SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2006

Or

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

For the transition period from ______________ to ______________

(Commission File Number) 000-30419

ON SEMICONDUCTOR CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of each of the issuer’s classes of common stock as of the close of business on October 20, 2006:

Class	Number of Shares
Common Stock; $.01 par value	**325,435,623**

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in millions, except share and per share data)
(unaudited)

	September 29, 2006	December 31, 2005
Assets		
Cash and cash equivalents	$ 233.4	$ 233.3
Short-term investments	35.8	—
Receivables, net	194.9	160.2
Inventories, net	205.8	169.5
Other current assets	41.5	29.9
Deferred income taxes	11.7	7.4
Total current assets	723.1	600.3
Property, plant and equipment, net	567.1	438.5
Goodwill	80.7	77.3
Intangible assets, net	11.2	—
Other assets	34.6	32.4
Total assets	$ 1,416.7	$ 1,148.5
Liabilities, Minority Interests and Stockholders' Deficit		
Accounts payable	$ 134.6	$ 137.3
Accrued expenses	101.6	83.9
Income taxes payable	6.4	5.5
Accrued interest	1.4	0.6
Deferred income on sales to distributors	128.6	97.1
Current portion of long-term debt	34.7	73.9
Total current liabilities	407.3	398.3
Long-term debt	972.0	993.1
Other long-term liabilities	32.6	31.4
Deferred income taxes	5.6	1.2
Total liabilities	1,417.5	1,424.0
Commitments and contingencies (See Note 11)		
Minority interests in consolidated subsidiaries	19.5	24.8
Common stock ($0.01 par value, 600,000,000 and 500,000,000 shares authorized, 325,349,086 and 310,637,499 shares issued and outstanding)	3.2	3.1
Additional paid-in capital	1,347.1	1,252.7
Accumulated other comprehensive income	1.5	0.7
Accumulated deficit	(1,372.1)	(1,556.8)
Total stockholders' deficit	(20.3)	(300.3)
Total liabilities, minority interests and stockholders' deficit	$ 1,416.7	$ 1,148.5

See accompanying notes to consolidated financial statements.

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ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Quarter Ended		Nine Months ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Product revenues	$ 372.2	$ 312.4	$ 1,066.7	$ 916.1
Manufacturing service revenues	48.7	1.2	63.5	2.7
Net revenues	420.9	313.6	1,130.2	918.8
Cost of product revenues	223.2	208.9	650.1	618.7
Cost of manufacturing services revenues	37.3	0.6	48.8	1.3
Cost of revenues	260.5	209.5	698.9	620.0
Gross profit	160.4	104.1	431.3	298.8
Operating expenses:				
Research and development	25.9	23.9	74.7	70.0
Selling and marketing	23.2	20.0	66.9	58.2
General and administrative	23.1	17.8	64.6	55.7
Restructuring, asset impairments and other, net	—	0.2	3.3	4.1
Total operating expenses	72.2	61.9	209.5	188.0
Operating income	88.2	42.2	221.8	110.8
Other income (expenses), net:				
Interest expense	(13.8)	(16.1)	(39.9)	(46.1)
Interest income	3.6	1.7	8.4	3.8
Other	(0.7)	(0.8)	0.1	(2.4)
Other income (expenses), net	(10.9)	(15.2)	(31.4)	(44.7)
Income before income taxes and minority interests	77.3	27.0	190.4	66.1
Income tax provision	—	(2.5)	(3.8)	(6.3)
Minority interests	(0.5)	(1.0)	(1.9)	(3.0)
Net income	76.8	23.5	184.7	56.8
Less: Accretion to redemption value of convertible redeemable preferred stock	—	0.1	—	0.3
Less: Convertible redeemable preferred stock dividends	—	(2.7)	—	(7.9)
Less: Allocation of undistributed earnings to preferred stockholders	—	(3.3)	—	(7.7)
Net income applicable to common stock	$ 76.8	$ 17.6	$ 184.7	$ 41.5
Comprehensive income:				
Net income	$ 76.8	$ 23.5	$ 184.7	$ 56.8
Foreign currency translation adjustments	—	(1.0)	1.2	(2.5)
Effects of cash flows hedges	(2.1)	1.9	(0.4)	3.9
Unrealized gains on deferred compensation plan investments	—	0.9	—	0.5
Comprehensive income:	$ 74.7	$ 25.3	$ 185.5	$ 58.7
Income per common share:				
Basic:	$ 0.24	$ 0.07	$ 0.58	$ 0.16
Diluted:	$ 0.23	$ 0.06	$ 0.54	$ 0.15
Weighted average common shares outstanding:				
Basic	324.9	256.1	319.8	255.5
Diluted	336.6	290.7	346.0	288.8

See accompanying notes to consolidated financial statements.

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ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Quarter Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Cash flows from operating activities:				
Net income	$ 76.8	$ 23.5	$ 184.7	$ 56.8
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	19.3	25.0	60.0	74.9
Loss on sale or disposal of fixed assets	0.5	0.1	0.3	0.1
Amortization of debt issuance costs	0.7	0.4	2.0	1.3
Provision for excess inventories	7.1	2.7	16.2	8.9
Non-cash impairment of property, plant and equipment	—	—	4.7	—
Non-cash interest on junior subordinated note payable	—	3.9	—	11.7
Non-cash stock compensation expense	2.9	—	7.2	—
Deferred income taxes	0.4	2.0	0.3	(2.6)
Other	0.2	1.4	—	3.3
Changes in assets and liabilities:				
Receivables	5.5	(22.8)	(35.0)	(32.2)
Inventories	(17.8)	(3.3)	(52.5)	11.8
Other assets	(6.8)	2.1	(17.0)	(1.1)
Accounts payable	5.5	2.7	0.3	(0.5)
Accrued expenses	(7.6)	1.5	16.6	5.7
Income taxes payable	—	—	0.9	4.0
Accrued interest	0.9	0.3	0.8	(0.4)
Deferred income on sales to distributors	1.7	9.3	31.5	3.8
Other long-term liabilities	0.2	(0.1)	0.2	1.4
Net cash provided by operating activities	89.5	48.7	221.2	146.9
Cash flows from investing activities:				
Purchases of property, plant and equipment	(51.3)	(12.5)	(186.4)	(34.5)
Deposits utilized for purchases of property, plant and equipment, net	(1.0)	(0.7)	(0.7)	(0.7)
Proceeds from sales of property, plant and equipment	0.2	0.8	1.3	1.6
Purchases of intangible assets	—	—	(11.9)	—
Purchases of held-to-maturity securities	(35.4)	—	(35.4)	(2.1)
Purchases of available-for-sale securities	—	—	—	(16.1)
Purchase of minority interest	(9.2)	—	(9.2)	—
Proceeds from sales of held-to-maturity securities	—	11.2	—	35.3
Proceeds from sales of available-for-sale securities	—	—	2.3	63.9
Net cash provided by (used in) investing activities	(96.7)	(1.2)	(240.0)	47.4
Cash flows from financing activities:				
Proceeds from issuance of common stock under the employee stock purchase plan	1.0	0.5	2.1	1.4
Proceeds from stock option exercises	1.1	2.1	10.0	3.1
Proceeds from issuance of common stock, net of issuance costs	(0.1)	—	76.3	—
Proceeds from debt issuance	11.0	—	11.0	—
Payment of capital lease obligations	(0.9)	(0.9)	(4.8)	(4.0)
Payment of debt issuance and amendment costs	(1.3)	—	(3.0)	(0.2)
Dividend to minority shareholder of consolidated subsidiary	(0.4)	—	(1.4)	(2.0)
Repayment of long-term debt	(64.4)	(12.4)	(71.8)	(25.8)
Net cash provided by (used in) financing activities	(54.0)	(10.7)	18.4	(27.5)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	(0.1)	0.5	(0.2)
Net increase (decrease) in cash and cash equivalents	(61.3)	36.7	0.1	166.6
Cash and cash equivalents, beginning of period	294.7	235.6	233.3	105.7
Cash and cash equivalents, end of period	$ 233.4	$ 272.3	$ 233.4	$ 272.3

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1: Background and Basis of Presentation

ON Semiconductor Corporation, together with it's wholly and majority-owned subsidiaries (the "Company"), is a global supplier of power and data management semiconductors and standard semiconductor components. The Company was a wholly-owned subsidiary of Motorola Inc. ("Motorola") prior to its August 4, 1999 recapitalization (the "recapitalization").

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

The accompanying unaudited financial statements as of September 29, 2006, and for the three months and nine months ended September 29, 2006 and September 30, 2005, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of December 31, 2005 and for the year then ended included in the Company's annual report on Form 10-K for the year ended December 31, 2005.

Note 2: Liquidity

During the nine months ended September 29, 2006, the Company reported net income of $184.7 million compared to $56.8 million for the nine months ended September 30, 2005. The Company's net income for the nine months ended September 29, 2006 and September 30, 2005 included a restructuring, asset impairment and other, net charge of $3.3 million and $4.1 million, respectively. Net cash provided by operating activities was $221.2 million for the nine months ended September 29, 2006, as compared to $146.9 million for the nine months ended September 30, 2005.

At September 29, 2006, the Company had $269.2 million in cash and cash equivalents and short-term investments, net working capital of $315.8 million, term and revolving debt of $1,006.7 million in the aggregate and a stockholders' deficit of $20.3 million. The Company's long-term debt is due at various times ranging from 2006 to 2024 depending on the debt instrument (see *Note 8: Long Term Debt*) The Company's long-term debt agreements also includes various covenants of which, the Company was in compliance with as of September 29, 2006 and expects to remain in compliance over the next twelve months.

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

If the Company fails to generate sufficient cash from operations, it may need to sell additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

borrowings will be available or, if available, will be on terms acceptable to the Company. Management believes that cash flows from operating activities coupled with existing cash balances will be adequate to fund the Company's operating and capital needs through at least September 29, 2007. To the extent that results or events differ from the Company's financial projections or business plans, its liquidity may be adversely affected.

Note 3: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, as well as its wholly-owned and majority-owned subsidiaries. Investments in companies that represent less than 20% of the related voting stock are accounted for on the cost basis. All intercompany accounts and transactions have been eliminated.

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

Use of Estimates

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

Cash and cash equivalents

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

Short-term investments

Short-term investments have an original maturity between three months and one year and a remaining maturity of less than one year and are all classified as held-to-maturity. Held-to-maturity securities are stated at amortized cost as it is the intent of the Company to hold these securities until maturity. Realized gains and losses are accounted for on the specific identification method. Short-term investments classified as held to maturity as of September 29, 2006 were as follows (in millions):

	September 29, 2006			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Short-term investments				
Held-to-maturity				
Corporate bonds	$ 17.9	$ —	$ —	$17.9
U.S. Government agencies	17.9	—	—	17.9
	$ 35.8	$ —	$ —	$35.8

Allowance for Doubtful Accounts

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

Approximately 15% of the Company's revenues for the quarter and the nine months ended September 29, 2006, respectively, are attributable to its various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation ("Delphi"), one of the Company's automotive customers, and certain of Delphi's U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the quarter and nine months ended September 29, 2006, the Company's revenues from Delphi accounted for less than 3% of its total revenues and approximately $5.4 million of its receivables due from Delphi as of September 29, 2006 are subject to collection pending resolution of the reorganization proceedings.

Inventories

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

Property, Plant and Equipment

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

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

In 2005, management committed to a plan to sell approximately 42 acres of land and three buildings located at its corporate headquarters in Phoenix, Arizona, as well as one of its two buildings at its East Greenwich, Rhode Island facility. The remainder of the Phoenix site will continue to function as the Company’s corporate headquarters as well as a manufacturing, design center and research and development facility. The remaining building in Rhode Island will continue to function as a design center and research and development facility. The property and buildings are currently being marketed for sale with a list price of between $24 million and $27 million. The net book value of the land and buildings of $3.0 million has been classified as held for sale and included in other current assets as of December 31, 2005 and September 29, 2006.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the Company’s April 2000 acquisition of Cherry Semiconductor Corporation (Cherry) and in the Company’s September 2006 acquisition of an additional interest in its investment in Leshan. When the Company adopted Statement of Financial Accounting Standards No. 142 “Goodwill and Other Intangible Assets” (“SFAS No. 142”) the net carrying value of the Cherry Goodwill was $77.3 million, which included $18.4 million of accumulated amortization. Additionally, during the third quarter of 2006 the Company acquired additional interest in its investment in Leshan for $9.2 million, for which the incremental interest in the underlying net tangible assets had an estimated fair value of $5.8 million resulting in $3.4 million of Goodwill. Under SFAS No. 142, goodwill is evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit’s goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit’s carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The Company performs its annual impairment analysis as of the first day of the fourth quarter of each year.

Intangible Assets

Intangible assets consist of values assigned to intellectual property and assembled workforce resulting from the May 2006 purchase by SCI LLC of LSI Logic Corporation's ("LSI") Gresham, Oregon wafer fabrication facility (see *Note 5: Asset Acquisition* for further discussion). These are stated at cost less accumulated amortization and are amortized over their economic useful life of 5 years using the straight-line method and are reviewed for impairment when facts or circumstances suggest that the carrying value of these assets may not be recoverable.

Intangible assets, net were as follows as of September 29, 2006 (in millions):

	As of September 29, 2006			
	Original Cost	Accumulated Amortization	Carrying Value	Useful Life (in Years)
Intellectual Property	$ 5.2	$ (0.4)	$ 4.8	5
Assembled Workforce	6.7	(0.3)	6.4	5
Total intangibles	$ 11.9	$ (0.7)	$ 11.2	

Amortization expense for intangible assets amounted to $0.4 million and $0.7 million for the quarter and nine months ended September 29, 2006, and is expected to be as follows over the next five years (in millions).

	Intellectual Property	Assembled Workforce
Remainder of 2006	$ 0.3	$ 0.3
2007	1.0	1.4
2008	1.0	1.4
2009	1.0	1.4
2010	1.0	1.4
2011	0.5	0.5
Total estimated amortization expense	$ 4.8	$ 6.4

Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the term of the underlying agreements using the effective interest method. Upon prepayment of debt, the related unamortized debt issuance costs are charged to expense. Amortization of debt issuance costs is included in interest expense while the unamortized balance is included in other assets. Capitalized debt issuance costs totaled $11.7 million and $11.4 million at September 29, 2006 and December 31, 2005, respectively.

Revenue Recognition

The Company generates product revenue from sales of its semiconductor products to original equipment manufacturers and distributors. The Company also generates revenue, although to a much lesser extent, from manufacturing services provided to customers. The Company recognizes product revenue on sales to original equipment manufacturers when title passes to the end customer net of provisions for related sales returns and allowances. Title to products sold to distributors typically passes at the time of shipment by the Company so the Company records accounts receivable for the amount of the transaction, reduces its inventory for the products shipped and defers the related margin in the consolidated balance sheet. The Company recognizes the related revenue and margin when the distributor informs the Company that it has resold the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days. Freight and handling costs are included in cost of revenues and are recognized as period expense during the period in which they are incurred.

Research and Development Costs

Research and development costs are expensed as incurred.

Share-Based Payments

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

Under SFAS 123R, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee’s requisite service period. As of September 29, 2006, the Company had no unvested awards with market or performance conditions, although it did have outstanding awards with time and service based vesting provisions. The Company adopted the provisions of SFAS No. 123R on January 1, 2006, the first day of the Company’s fiscal year 2006, using a modified prospective application, which provides for certain changes to the method for recognizing share-based compensation. Under the modified prospective application, prior periods are not revised for comparative purposes. The provisions of SFAS No. 123R apply to new awards and to awards that are outstanding with future service periods on the effective date. Estimated compensation expense for awards outstanding with future service periods at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under FASB Statement No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”).

Income Taxes

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

In determining the amount of the valuation allowance, estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction is considered. If all or a portion of the remaining deferred tax assets will not be realized, the valuation allowance will be increased with a charge to income tax expense. Conversely, if the Company will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense.

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

Foreign Currencies

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

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

Defined Benefit Plans

The Company maintains pension plans covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increases for plan employees. All of these assumptions are based upon management's judgment and consultation with an actuary, considering all known trends and uncertainties.

Asset Retirement Obligations

The Company recognizes asset retirement obligations ("AROs") when incurred, with the initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. In addition, asset retirement costs are capitalized as part of the related asset's carrying value and are depreciated over the asset's respective useful life. The weighted average discount rate used to determine the liability as of September 29, 2006 was 6.7%. The Company's AROs consist primarily of estimated decontamination costs associated with manufacturing equipment and buildings resulting from the Company's adoption of FIN 47, "Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143" ("FIN 47") effective December 31, 2005. As a result of the adoption of FIN 47, the Company recorded a $2.9 million net charge for the cumulative effect of accounting change in the fourth quarter of 2005.

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Contingencies

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

Note 4: Change in Accounting Estimate

During the quarter ended June 30, 2006, the Company commissioned a study of the manufacturing equipment at its worldwide locations, which included an assessment of the estimated useful lives of those assets. The results of the study supported an estimated useful life of 10 years. Management, factoring in the results of this study, has revised the estimated useful lives of its manufacturing equipment for depreciation purposes to 10 years as of the beginning of the second quarter of 2006 and on a prospective basis. The effect of this change was to decrease depreciation expense by $6.8 million and $14.3 million, increase net income by $6.8 million and $14.3 million and increase both basic and diluted net income per share by $0.02 and $0.04 for the quarter and nine months ended September 29, 2006, respectively.

Note 5: Asset Acquisition

On May 15, 2006, SCI LLC purchased LSI’s Gresham, Oregon wafer fabrication facility, including real property, tangible personal property, certain intangible assets, other specified manufacturing equipment and related information. In accordance with Emerging Issues Task Force issue No. 98-3 “Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business”, this transaction was determined to be an acquisition of assets, not a business combination. The assets that were purchased included an approximately 83 acre campus with an estimated 500,000 square feet of building space of which approximately 98,000 square feet is clean room. SCI LLC also offered employment to substantially all of LSI’s manufacturing employees working at the Gresham facility at the time of the purchase. At the closing of the transaction, SCI LLC also entered into several ancillary agreements including, but not limited to, a wafer supply and test agreement, intellectual property license agreement, transition services agreement and facility use agreement.

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

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

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The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management estimates and assumptions, and other information compiled by management, including third-party valuations that utilized established valuation techniques appropriate for the high-technology industry.

The Company paid LSI a deposit of $10.5 million in April 2006 and also paid $80.6 million at the closing of the transaction on May 15, 2006, and paid the remaining balance of $15.0 million on August 14, 2006.

To finance a portion of the purchase, the Company completed a public offering on April 6, 2006 of common stock registered pursuant to a shelf registration statement originally filed with the Securities and Exchange Commission on January 2, 2004. In connection with this offering, the Company issued approximately 11.2 million shares (which includes 0.7 million shares issued as over-allotments) of its common stock at a price of $7.00 per share. The net proceeds from this offering received by the Company were $75.2 million after deducting the underwriting discount of $1.6 million ($0.14 per share) and offering expenses of $1.3 million. See *Note 9: Common Stock* for further discussion.

Note 6: Restructuring, Asset Impairments and Other, net

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

Restructuring

June 2005 Restructuring Program

Cumulative charges of $3.4 million offset by adjustments of $1.3 million have been incurred through September 29, 2006, related to the June 2005 restructuring program. In June 2005, the Company recorded $3.4 million of employee separation charges, which included $2.2 million related to general worldwide work force reductions of approximately 60 employees. These headcount reductions were initiated for cost savings purposes. In June 2006, the Company reversed the remaining $0.1 million reserve related to this general workforce reduction after all terminations and associated severance payments had been completed.

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

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

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Nine Months Ended September 29, 2006	$ 1.5	$ —	$(0.2)	$ (1.3)	$ —

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December 2003 Restructuring Program

Cumulative charges of $8.2 million offset by adjustments of $0.8 million have been incurred through September 29, 2006, related to the December 2003 restructuring program. This includes $7.0 million of employee separation costs (partially offset by $0.7 million of adjustments) and $1.2 million of cash exit costs (partially offset by $0.1 million of adjustments).

The employee separation costs of $7.0 million (partially offset by $0.7 million of adjustments) reflect the phase-out of manufacturing operations at the Company's East Greenwich, Rhode Island facility, the shutdown of the Company's assembly and test operations in Roznov, Czech Republic, that was announced in November 2003, and further reductions in general and administrative staffing levels in the United States and Western Europe for cost savings purposes. The employee separation charges for East Greenwich totaled $3.8 million (partially offset by $0.8 million of adjustments) for approximately 325 employees, of which 2 employees remain as of September 29, 2006 and are to be terminated during the fourth quarter of 2006.

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

The reduction in general and administrative functions in the United States and Europe totaled $0.9 million for 10 employees of which $0.1 million remained unpaid for one employee remaining to be terminated as of September 29, 2006. This termination and associated severance payments are expected to be completed by the fourth quarter of 2006.

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

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

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Nine Months Ended September 29, 2006	$ 0.4	$ —	$(0.3)	$ —	$ 0.1

December 2002 Restructuring Program

Cumulative charges since 2002 of $11.9 million, offset by adjustments of $2.1 million, have been incurred through September 29, 2006, related to the December 2002 restructuring program. This includes $10.1 million for employee separation costs (partially offset by $2.0 million of adjustments) relating to the termination of approximately 300 employees and approximately $1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets. The headcount reductions began in the first quarter of 2003 and impacted both manufacturing and non-manufacturing personnel mainly in the United States. These headcount reductions were initiated for cost savings purposes. The $2.1 million of adjustments were primarily made for employees whose terminations were rescinded due to business improvements and the plan to consolidate accounting systems. As of September 29, 2006, there were no employees remaining to be terminated, and all severance payments had been made.

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

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Nine Months Ended September 29, 2006	$ 0.2	$ —	$(0.1)	$ (0.1)	$ —

March 2002 Restructuring Program

Cumulative charges of $7.2 million and additional charges from adjustments of $0.5 million have been incurred as of September 29, 2006, related to the March 2002 restructuring program. This includes approximately $5.0 million attributable to employee terminations resulting from the Company's decision to relocate its European administrative functions from Toulouse, France to Roznov, Czech Republic and Piestany, Slovakia for cost savings purposes. The relocation of these functions was completed in 2003. The remaining $2.2 million related to reductions in selling, general and administrative personnel primarily in the U.S, which included $0.2 million of non-cash employee stock compensation expense associated with the modification of stock options for certain terminated employees. Subsequent to March 2002, the Company recorded an additional $0.5 million in employee separation costs relating to the relocation of the administrative functions in Toulouse, France based on the Company's estimate of costs to complete the activity at the times the adjustments were recorded. As of December 31, 2005, all employees had been terminated under this program and the remaining liability relating to this restructuring of $0.2 million as of September 29, 2006 is expected to be paid by December 2006. The Company does not expect any additional charges related to the March 2002 restructuring program. A reconciliation of the beginning and ending reserve balances related to this program is as follows (in millions):

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Nine Months Ended September 29, 2006	$ 0.2	$ —	$—	$ —	$ 0.2

As of September 29, 2006, the total reserve balance for all restructuring programs of $0.3 million was comprised entirely of employee severance charges.

Asset Impairments

In June 2006, the Company recorded $4.7 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. Over the past three years the Company has capitalized approximately $10.6 million of software development costs associated with modifications and enhancements to several business process and related systems. The $4.7 million of asset impairments resulted from the fact that the Company currently has no plans to use certain internally developed software, and management considers the cease of development of these assets as other than temporarily idled. The decision to cease development of these assets in the second quarter of 2006 was triggered by a reallocation of corporate resources from these projects to

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other projects due to changes in corporate priorities, which include new objectives that arose from the purchase of the Gresham, Oregon wafer fabrication facility in May 2006 (See *Note 5: Asset Acquisition* for further discussion). The amount of the asset impairment charge taken in June 2006, of $4.7 million, was determined based on the costs that had previously been capitalized related to the projects that have been abandoned.

Other

In September 2006, an overhead fire prevention sprinkler malfunctioned in the Company's Gresham wafer fabrication facility, damaging manufacturing equipment with a total net book value of $2.7 million. Approximately $2.2 million of the equipment has been determined not to be repairable. Accordingly, the Company wrote-off the equipment's net book value in September 2006. The Company expects to receive insurance proceeds from its property insurance provider to cover costs associated with the incident and has recorded a receivable for $2.2 million included in other assets as of September 29, 2006.

A reconciliation of the activity described above to the "Restructuring, asset impairments and other, net" caption on the statement of operations for the quarter and nine months ended September 29, 2006 and September 30, 2005, follows (in millions):

	Quarter Ended September 29, 2006	Quarter Ended September 30, 2005
Asset impairment charges	$ —	$ 0.3
Less: net adjustments to restructuring reserves	—	(0.1)
	$ —	$ 0.2

	Nine Months Ended September 29, 2006	Nine Months Ended September 30, 2005
Asset impairment charges	$ 4.7	$ 4.7
Less: net adjustments to restructuring reserves	(1.4)	(0.6)
	$ 3.3	$ 4.1

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Note 7: Balance Sheet Information

Balance sheet information is as follows (in millions):

	September 29, 2006	December 31, 2005
Receivables, net:		
Accounts receivable	$ 198.1	$ 163.0
Less: Allowance for doubtful accounts	(3.2)	(2.8)
	$ 194.9	$ 160.2
Inventories, net:		
Raw materials	$ 23.2	$ 18.0
Work in process	109.4	88.1
Finished goods	73.2	63.4
	$ 205.8	$ 169.5
Property, plant and equipment, net:		
Land	$ 28.0	$ 14.9
Buildings	354.0	335.9
Machinery and equipment	1,144.0	1,004.2
Total property, plant and equipment	1,526.0	1,355.0
Less: Accumulated depreciation	(958.9)	(916.5)
	$ 567.1	$ 438.5
Accrued expenses:		
Accrued payroll	$ 43.5	$ 31.0
Sales related reserves	32.3	28.7
Restructuring reserves	0.3	2.3
Accrued pension liability	1.9	1.9
Other	23.6	20.0
	$ 101.6	$ 83.9
Accumulated other comprehensive income:		
Foreign currency translation adjustments	$ (1.2)	$ (2.5)
Net unrealized gains and adjustments related to cash flow hedges	2.7	3.2
	$ 1.5	$ 0.7

The activity related to the Company’s warranty reserves for the nine months ended September 29, 2006 is as follows (in millions):

Balance as of December 31, 2005	$ 4.0
Provision	0.9
Usage	(2.8)
Reserve released	—
Balance as of September 29, 2006	$ 2.1

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The activity related to the Company's warranty reserves for the nine months ended September 30, 2005 is as follows (in millions):

Balance as of December 31, 2004	$ 3.0
Provision	5.1
Usage	(3.9)
Reserve released	(0.1)
Balance as of September 30, 2005	$ 4.1

The Company maintains a defined benefit plan for some of its foreign subsidiaries. The Company recognizes a minimum liability in its financial statements for its underfunded pension plans. As of September 29, 2006 and December 31, 2005, the total accrued pension liability was $12.6 million and $12.4 million, respectively, of which $2.0 million and $1.9 million, respectively, were classified as accrued expenses. The components of the Company's net periodic pension expense for the quarter and nine months ended September 29, 2006, and September 30, 2005 are as follows (in millions):

	Quarter Ended September 29, 2006	Quarter Ended September 30, 2005		
	Foreign Pension Plans	U.S. Pension Plan	Foreign Pension Plans	Total
Service cost	$ 0.3	$ —	$ 0.3	$ 0.3
Interest cost	0.2	0.3	0.2	0.5
Expected return on plan assets	(0.2)	—	(0.2)	(0.2)
Amortization of prior service cost	0.1	—	0.1	0.1
Total net periodic pension cost	$ 0.4	$ 0.3	$ 0.4	$ 0.7

	Nine Months Ended September 29, 2006	Nine Months Ended September 30, 2005		
	Foreign Pension Plans	U.S. Pension Plan	Foreign Pension Plans	Total
Service cost	$ 0.8	$ —	$ 0.8	$ 0.8
Interest cost	0.7	1.3	0.7	2.0
Expected return on plan assets	(0.5)	—	(0.4)	(0.4)
Amortization of prior service cost	0.3	—	0.3	0.3
Total net periodic pension cost	$ 1.3	$ 1.3	$ 1.4	$ 2.7

For the quarter and nine months ended September 30, 2005, the Company did not incur service cost under the U.S. Pension Plan as benefits under that plan stopped accumulating as of December 31, 2004. Furthermore, the U.S. Pension Plan was terminated, all liabilities had been settled and all plan assets belonging to the U.S. Pension Plan had been used to complete the termination of the U.S. Pension Plan as of December 31, 2005.

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Note 8: Long-Term Debt

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

	September 29, 2006 Balance	December 31, 2005 Balance
Senior Bank Facilities:		
Term Loan, interest payable quarterly at 7.6170% and 7.1875%, respectively	$ 574.1	$ 639.1
Revolver	—	—
	574.1	639.1
Zero Coupon Convertible Senior Subordinated Notes due 2024	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025	95.0	95.0
2.25% Note payable to Japanese bank due 2005 through 2010, interest payable semi-annually	12.6	15.4
Loan with a Chinese bank due 2006 through 2007, interest payable quarterly at 6.730% and 5.867%, respectively	14.0	14.0
Loan with a Chinese bank due 2009, interest payable quarterly at 6.57%	6.0	—
Loan with a Chinese bank due 2006 through 2013, interest payable semiannually at 7.03% and 6.167%, respectively	10.8	14.4
Loan with a Chinese bank due 2009, interest payable semiannually at 7.03 % and 6.167 %, respectively	20.0	20.0
Loan with a Chinese bank due 2009, interest payable semiannually at 6.56%	5.0	—
Capital lease obligations	9.2	9.1
	1,006.7	1,067.0
Less: Current maturities	(34.7)	(73.9)
	$ 972.0	$ 993.1

Annual maturities relating to the Company's long-term debt as of September 29, 2006 are as follows (in millions):

Remainder of 2006	$ 13.5
2007	25.3
2008	18.5
2009 (1)	586.1
2010	264.2
Thereafter	99.1
Total	$ 1,006.7

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

February 2006 Amendment to Senior Bank Facilities

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

March 2006 Amendment to Senior Bank Facilities

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

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

In June 2006, the Company commenced an offer to exchange all of its then outstanding $260.0 million principal amount of zero coupon convertible senior subordinated notes due 2024 (the "Old Notes") for a like principal amount of (the "New Notes") plus an exchange fee of $2.50 per $1,000 principal amount of their Old Notes validly tendered and accepted for exchange. The New Notes contain a net share settlement feature, which will reduce the amount of shares included in diluted net income per share beginning in the third quarter of 2006. On July 21, 2006, the Company issued $259.5 million aggregate principal amount of New Notes that are convertible into cash up to the par value at a conversion rate of 101.8849 shares per $1,000 principle under certain circumstances. The excess of fair value over par value is convertible into stock. The exchange expired on July 19, 2006, and 99.8% of the aggregate principal amount of the Old Notes were tendered and subsequently exchanged. On August 9, 2006, the Company entered into transactions with four of the remaining holders of Old Notes and exchanged $443,000 aggregate principal amount of Old Notes that were not tendered in the exchange. These holders exchanged their Old Notes for New Notes on the same terms as the exchange offer discussed above. The Company intends to repurchase or redeem all of the Old Notes that remain outstanding, subject to market conditions.

August and September 2006 Chinese Loan Refinancing

In August and September 2006, the Company refinanced its existing loans with two Chinese banks. The Company's long-term debt includes a $14.0 million loan facility with a Chinese Bank, from tranches entered into from November 2000 through February 2001. Interest on this loan facility is payable quarterly and accrues at a variable rate based on published six month LIBOR rates in China, plus 1.2%, reset each half year. During the fourth quarter of 2003, the Company exercised its ability to extend the maturity of this loan facility for three years, resulting in scheduled principal payments of $8.0 million due in the fourth quarter of 2006 and $6.0 million due in the first quarter of 2007.

The Company's long-term debt includes a $6.0 million loan facility due in 2009 with the same Chinese Bank as the $14 million loan facility, entered into in August 2006. Interest on this loan is payable quarterly and accrues at a variable rate based on published three month LIBOR rates in China, plus 1.2%, and reset each quarter.

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The Company's long-term debt also includes a $35.8 million loan facility with another Chinese Bank. This loan facility is comprised of three tranches for $20.0 million, $5.0 million, and $10.8 million, respectively. The $20.0 million tranche was modified in August 2006 and is due in 2009 with $13.0 million amortizing over three years, payable quarterly beginning in the fourth quarter of 2006. The remaining $7.0 million is due in 2009. Interest on this tranche is payable semiannually and accrues at a variable rate based on published six month LIBOR rates in China, plus 1.5%, reset each half year.

The $5.0 million tranche was executed in August 2006 and is due in 2009. Interest on this tranche is payable semiannually and accrues at a variable rate based on published six month LIBOR rates in China, plus 1.2%, and resets each half year.

The $10.8 million tranche was executed in December 2003 with scheduled quarterly principal and interest payments through December 2013. Interest on this tranche payable semiannually and accrues at a variable rate based on published six month LIBOR rates in China, plus 1.5%, and resets each half year.

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Debt Guarantees

The Company is the sole issuer of the zero coupon convertible senior subordinated notes due 2025 and the 1.875% convertible senior subordinated notes due 2024 (collectively, "the Notes"). The Company's domestic subsidiaries (collectively, the "Guarantor Subsidiaries") fully and unconditionally guarantee on a joint and several basis the Company's obligations under the Notes. The Guarantor Subsidiaries include SCI LLC, Semiconductor Components Industries of Rhode Island, Inc, as well as holding companies whose net assets consist primarily of investments in the joint venture in Leshan, China and nominal equity interests in certain of the Company's other foreign subsidiaries. The Company's remaining subsidiaries (collectively, the "Non-Guarantor Subsidiaries") are not guarantors of the Notes.

	Issuer ON Semiconductor Corporation (1)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of September 29, 2006						
Cash and cash equivalents	$ —	$ 157.5	$ —	$ 75.9	$ —	$ 233.4
Short Term Investments	—	35.8	—	—	—	35.8
Receivables, net	—	48.5	—	146.4	—	194.9
Inventories, net	—	35.1	—	172.9	(2.2)	205.8
Other current assets	—	12.0	2.4	27.1	—	41.5
Deferred income taxes	—	(0.3)	—	12.0	—	11.7
Total current assets	—	288.6	2.4	434.3	(2.2)	723.1
Property, plant and equipment, net	—	164.0	3.1	400.0	—	567.1
Goodwill and intangibles	—	15.5	72.5	3.9	—	91.9
Investments and other assets	127.3	207.3	45.7	22.3	(368.0)	34.6
Total assets	$ 127.3	$ 675.4	$ 123.7	$ 860.5	$ (370.2)	$1,416.7
Accounts payable	$ —	$ 30.3	$ 0.2	$ 104.1	$ —	$ 134.6
Accrued expenses and other current liabilities	0.5	61.2	1.0	79.6	1.8	144.1
Deferred income on sales to distributors	—	41.4	—	87.2	—	128.6
Total current liabilities	0.5	132.9	1.2	270.9	1.8	407.3
Long-term debt	355.0	572.5	—	44.5	—	972.0
Other long-term liabilities	—	19.1	0.3	13.2	—	32.6
Deferred Income Taxes	—	(0.3)	—	5.9	—	5.6
Intercompany	(207.9)	(326.5)	181.6	147.2	205.6	—
Total liabilities	147.6	397.7	183.1	481.7	207.4	1,417.5
Minority interests in consolidated subsidiaries	—	—	—	—	19.5	19.5
Stockholders' equity (deficit)	(20.3)	277.7	(59.4)	378.8	(597.1)	(20.3)
Liabilities, minority interests and stockholders' equity (deficit)	$ 127.3	$ 675.4	$ 123.7	$ 860.5	$ (370.2)	$1,416.7

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Issuer ON Semiconductor Corporation (1)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the quarter ended September 29, 2006						
Revenues	$ —	$ 162.0	$ 3.7	$ 471.9	$ (216.7)	$420.9
Cost of revenues	—	124.4	0.5	355.8	(220.2)	260.5
Gross profit	—	37.6	3.2	116.1	3.5	160.4
Research and development	—	6.1	3.1	16.7	—	25.9
Selling and marketing	—	12.8	0.2	10.2	—	23.2
General and administrative	—	(5.6)	—	28.7	—	23.1
Total operating expenses	—	13.3	3.3	55.6	—	72.2
Operating income (loss)	—	24.3	(0.1)	60.5	3.5	88.2
Interest expense, net	(1.0)	(4.2)	(2.2)	(2.8)	—	(10.2)
Other	—	(0.7)	—	—	—	(0.7)
Equity in earnings	77.8	56.0	1.0	—	(134.8)	—
Income (loss) before income taxes, and minority interests	76.8	75.4	(1.3)	57.7	(131.3)	77.3
Income tax provision	—	1.3	—	(1.3)	—	—
Minority interests	—	—	—	—	(0.5)	(0.5)
Net income (loss)	$ 76.8	$ 76.7	$ (1.3)	$ 56.4	$ (131.8)	$ 76.8
For the quarter ended September 30, 2005						
Revenues	$ —	$ 104.9	$ —	$ 410.9	$ (202.2)	$313.6
Cost of revenues	—	88.9	3.8	310.1	(193.3)	209.5
Gross profit	—	16.0	(3.8)	100.8	(8.9)	104.1
Research and development	—	4.6	2.9	16.4	—	23.9
Selling and marketing	—	10.3	0.3	9.4	—	20.0
General and administrative	—	2.6	(0.4)	15.6	—	17.8
Restructuring, asset impairments and other, net	—	—	—	0.2	—	0.2
Total operating expenses	—	17.5	2.8	41.6	—	61.9
Operating income (loss)	—	(1.5)	(6.6)	59.2	(8.9)	42.2
Interest expense, net	(0.4)	(8.7)	(2.4)	(2.9)	—	(14.4)
Other	—	1.3	—	(2.1)	—	(0.8)
Equity in earnings	23.9	30.3	1.6	—	(55.8)	—
Income (loss) before income taxes, and minority interests	23.5	21.4	(7.4)	54.2	(64.7)	27.0
Income tax provision	—	1.6	—	(4.1)	—	(2.5)
Minority interests	—	—	—	—	(1.0)	(1.0)
Net income (loss)	$ 23.5	$ 23.0	$ (7.4)	$ 50.1	$ (65.7)	$ 23.5

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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	Issuer ON Semiconductor Corporation (1)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the nine months ended September 29, 2006						
Revenues	$ —	$ 407.0	$ 10.6	$ 1,374.4	$ (661.8)	$1,130.2
Cost of revenues	—	322.8	1.9	1,046.7	(672.5)	698.9
Gross profit	—	84.2	8.7	327.7	10.7	431.3
Research and development	—	16.7	8.7	49.3	—	74.7
Selling and marketing	—	37.2	0.6	29.1	—	66.9
General and administrative	—	(1.4)	(0.2)	66.2	—	64.6
Restructuring, asset impairments and other, net	—	4.5	—	(1.2)	—	3.3
Total operating expenses	—	57.0	9.1	143.4	—	209.5
Operating income (loss)	—	27.2	(0.4)	184.3	10.7	221.8
Interest expense, net	(2.9)	(12.5)	(6.8)	(9.3)	—	(31.5)
Other	—	4.2	—	(4.1)	—	0.1
Equity in earnings	187.6	162.8	3.0	—	(353.4)	—
Income (loss) before income taxes, and minority interests	184.7	181.7	(4.2)	170.9	(342.7)	190.4
Income tax provision	—	2.7	—	(6.5)	—	(3.8)
Minority interests	—	—	—	—	(1.9)	(1.9)
Net income (loss)	$ 184.7	$ 184.4	$ (4.2)	$ 164.4	$ (344.6)	$ 184.7
Net cash provided by operating activities	$ —	$ 70.5	$ 9.3	$ 141.4	$ —	$ 221.2
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(116.0)	(0.1)	(70.3)	—	(186.4)
Deposits utilized for purchases of property, plant and equipment	—	—	—	(0.7)	—	(0.7)
Purchases of intangible assets	—	(11.9)	—	—	—	(11.9)
Purchase of minority interest	—	—	(9.2)	—	—	(9.2)
Proceeds from sales of held-to-maturity securities	—	(35.4)	—	—	—	(35.4)
Proceeds from sales of available-for-sale securities	—	2.3	—	—	—	2.3
Proceeds from sales of property, plant and equipment	—	0.9	—	0.4	—	1.3
Net cash used in investing activities	—	(160.1)	(9.3)	(70.6)	—	(240.0)

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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	Issuer ON Semiconductor Corporation (1)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from financing activities:						
Intercompany loans	—	(367.6)	—	367.6	—	—
Intercompany loan repayments	—	450.0	—	(450.0)	—	—
Proceeds from debt issuance	—	—	—	11.0	—	11.0
Proceeds from issuance of common stock under the employee stock purchase plan	—	2.1	—	—	—	2.1
Proceeds from exercise of stock options	—	10.0	—	—	—	10.0
Dividends to minority shareholder of consolidated subsidiary	—	2.0	—	(3.4)	—	(1.4)
Equity injections from parent	—	—	2.0	—	—	2.0
Subsidiary declared dividend	—	—	(2.0)	—	—	(2.0)
Proceeds from issuance of common stock, net of issuance costs	—	76.3	—	—	—	76.3
Payment of capital lease obligation	—	(4.8)	—	—	—	(4.8)
Payment of debt issuance costs	—	(3.0)	—	—	—	(3.0)
Repayment of long term debt	—	(64.9)	—	(6.9)	—	(71.8)
Net cash provided by (used in) financing activities	—	100.1	—	(81.7)	—	18.4
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.5	—	0.5
Net increase (decrease) in cash and cash equivalents	—	10.5	—	(10.4)	—	0.1
Cash and cash equivalents, beginning of period	—	147.0	—	86.3	—	233.3
Cash and cash equivalents, end of period	$ —	$ 157.5	$ —	$ 75.9	$ —	$233.4

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Issuer ON Semiconductor Corporation (1)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the nine months ended September 30, 2005						
Revenues	$ —	$ 315.4	$ 25.8	$ 1,200.9	$ (623.3)	$918.8
Cost of revenues	—	284.5	22.2	943.7	(630.4)	620.0
Gross profit	—	30.9	3.6	257.2	7.1	298.8
Research and development	—	16.8	8.5	44.7	—	70.0
Selling and marketing	—	30.6	0.7	26.9	—	58.2
General and administrative	—	16.3	6.6	32.8	—	55.7
Restructuring, asset impairments and other, net	—	1.1	(0.3)	3.3	—	4.1
Total operating expenses	—	64.8	15.5	107.7	—	188.0
Operating income (loss)	—	(33.9)	(11.9)	149.5	7.1	110.8
Interest expense, net	(1.2)	(22.8)	(7.5)	(10.8)	—	(42.3)
Other	—	(3.1)	—	0.7	—	(2.4)
Equity in earnings	58.0	118.2	4.7	—	(180.9)	
Income (loss) before income taxes, and minority interests	56.8	58.4	(14.7)	139.4	(173.8)	66.1
Income tax provision	—	(4.4)	—	(1.9)	—	(6.3)
Minority interests	—	—	—	—	(3.0)	(3.0)
Net income (loss)	$ 56.8	$ 54.0	$ (14.7)	$ 137.5	$ (176.8)	$ 56.8
Net cash provided by (used in) operating activities	$ —	$ (62.8)	$ (1.2)	$ 210.9	$ —	$146.9
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(7.7)	—	(26.8)	—	(34.5)
Funds deposited for purchase of property, plant and equipment	—	—	—	(0.7)	—	(0.7)
Purchases of held-to-maturity securities	—	(2.1)	—	—	—	(2.1)
Purchases of available-for-sale securities	—	(16.1)	—	—	—	(16.1)
Proceeds from sales of held-to-maturity securities	—	35.3	—	—	—	35.3
Proceeds from sales of available-for-sale securities	—	63.9	—	—	—	63.9
Proceeds from sales of property, plant and equipment	—	0.4	1.2	—	—	1.6
Net cash provided by (used in) investing activities	—	73.7	1.2	(27.5)	—	47.4

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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	Issuer ON Semiconductor Corporation (1)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from financing activities:						
Intercompany loans	—	(363.6)	180.0	183.6	—	—
Intercompany loan repayments	—	531.5	(180.0)	(351.5)	—	—
Proceeds from issuance of common stock under the employee stock purchase plan	—	1.4	—	—	—	1.4
Proceeds from exercise of stock options and warrants	—	3.1	—	—	—	3.1
Dividends to minority shareholder of consolidated subsidiary	—	3.0	—	(5.0)	—	(2.0)
Equity injections from parent	—	—	3.0	—	—	3.0
Subsidiary declared dividend	—	—	(3.0)	—	—	(3.0)
Payment of capital lease obligation	—	(3.9)	—	(0.1)	—	(4.0)
Payment of debt issuance costs	—	(0.2)	—	—	—	(0.2)
Repayment of long term debt	—	(12.6)	—	(13.2)	—	(25.8)
Net cash provided by (used in) financing activities	—	158.7	—	(186.2)	—	(27.5)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(0.2)	—	(0.2)
Net increase (decrease) in cash and cash equivalents	—	169.6	—	(3.0)	—	166.6
Cash and cash equivalents, beginning of period	—	15.1	—	90.6	—	105.7
Cash and cash equivalents, end of period	$ —	$ 184.7	$ —	$ 87.6	$ —	$272.3

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

Note 9: Common Stock

On April 6, 2006, the Company completed a public offering of common stock registered pursuant to a shelf registration statement originally filed with the Securities and Exchange Commission on January 2, 2004. In

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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connection with this offering, the Company issued approximately 11.2 million shares (which includes 0.7 million shares issued as over-allotments) at a price of $7.00 per share. The net proceeds from this offering received by the Company were $75.2 million after deducting the underwriting discount of $1.6 million ($0.14 per share) and offering expenses of $1.3 million (including $1.1 million that were unpaid as of September 29, 2006). The Company used the net proceeds to partially fund the purchase of LSI's Gresham wafer fabrication facility, which had a total purchase price of $105 million. See further discussion in *Note 5: Asset Acquisition*.

Income per share calculations for the quarter and nine months ended September 29, 2006 and September 30, 2005, are as follows (in millions, except per share data):

	Quarter Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Net income	$ 76.8	$ 23.5	$ 184.7	$ 56.8
Less: Accretion to redemption value of convertible redeemable preferred stock	—	0.1	—	0.3
Less: Convertible redeemable preferred stock dividends	—	(2.7)	—	(7.9)
Less: Allocation of undistributed earnings to preferred shareholders	—	(3.3)	—	(7.7)
Net income applicable to common stock	76.8	17.6	184.7	41.5
Add: Amortization of debt issuance costs of zero coupon convertible subordinated notes, net of tax	0.1	0.4	0.8	1.2
Diluted net income applicable to common stock	$ 76.9	$ 18.0	$ 185.5	$ 42.7
Basic weighted average common shares outstanding	324.9	256.1	319.8	255.5
Add: Incremental shares for:				
Dilutive effect of equity based compensation	5.9	8.1	6.6	6.8
1.875% convertible senior subordinated notes	—	—	—	—
Convertible redeemable preferred stock	—	—	—	—
Convertible zero coupon senior subordinated notes	5.8	26.5	19.6	26.5
Diluted weighted average common shares outstanding	336.6	290.7	346.0	288.8
Income per common share				
Basic:	$ 0.24	$ 0.07	$ 0.58	$ 0.16
Diluted:	$ 0.23	$ 0.06	$ 0.54	$ 0.15

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

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

The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. Common shares relating to the employee stock options where the exercise price exceeded the average market price of the Company's common shares or the assumed exercise would have been anti-dilutive during these periods were also excluded from the diluted earnings per share calculation. The excluded option shares were 18.4 million and 14.6 million for the quarter and nine months ended September 29, 2006, respectively, and 9.6 million and 13.8 million for the quarter and nine months ended September 30, 2005 respectively.

For the quarter and nine months ended September 29, 2006, the assumed conversion of the 1.875% convertible senior subordinated notes was also excluded in determining diluted earnings per share. The 1.875% convertible senior subordinated notes are convertible into cash up to the par value of $95.0 million, based on an initial conversion price of approximately $7.00 per share. The excess of fair value over par value is convertible into stock. As of September 29, 2006, the Company's common stock traded below $7.00; thus, the effects of an assumed conversion would have been anti-dilutive and therefore were excluded.

For the assumed conversion of the zero coupon convertible senior subordinated notes, $0.1 million and $0.8 million and $0.4 million and $1.2 million of amortization expense of debt issuance costs for the quarters and nine months ended September 29, 2006 and September 30, 2005, respectively, was added back to net income to calculate diluted earnings per share.

Note 10: Employee Stock Benefit Plans

Employee Stock Options

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

On February 17, 2000, the Company adopted the 2000 Stock Incentive Plan ("the 2000 Plan") which provides key employees, directors and consultants with various equity-based incentives as described in the plan document. The 2000 Plan is administered by the Board of Directors or a committee thereof, which is authorized to determine, among other things, the key employees, directors or consultants who will receive awards under the plan, the amount and type of award, exercise prices or performance criteria, if applicable, and vesting schedules. Through December 31, 2004, stockholders had approved amendments to the 2000 Plan which have increased the number of shares of the Company's common stock reserved and available for grant to 30.5 million, plus an additional number of shares of the Company's common stock equal to 3% of the total number of outstanding shares of common stock effective automatically on January 1st of each year beginning January 1, 2005 and ending January 1, 2010. As of January 1, 2006 and 2005, the number of shares of the Company's common stock

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reserved and available for grant increased by 9.3 million and 7.7 million, respectively to 47.5 million and 38.2 million, from 30.5 million shares as of December 31, 2004, in accordance with the approved amendments. The 2000 Plan has also been amended to increase the maximum number of options granted to any one participant during a fiscal year from 1.0 million shares to 2.5 million, and to allow the Board of Directors to adopt a program of exchanging underwater options for newly issued options.

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

There was an aggregate of 18.2 million and 13.6 million shares of common stock available for grant under both plans at September 29, 2006 and December 31, 2005, respectively.

Share-Based Compensation Information under SFAS No. 123R

The fair value of each option grant in 2005 and thereafter is estimated on the date of grant using a lattice-based option valuation model. In past years, the Company has used the Black-Scholes option-pricing model to calculate the fair value of its options. The lattice model uses: 1) a constant volatility; 2) an employee exercise behavior model (based on an analysis of historical exercise behavior); and 3) the treasury yield curve to calculate the fair value of each option grant.

The weighted-average estimated fair value of employee stock options granted during the quarter and nine months ended September 29, 2006 was $2.83 per share and $2.91 per share, respectively, and was calculated using the lattice model with the following weighted-average assumptions (annualized percentages):

	Quarter Ended September 29, 2006	Nine Months Ended September 29, 2006
Volatility	53.9%	49.2%
Risk-free interest rate	4.8%	4.8%
Post-vesting forfeiture rate	8.6%	9.2%
Rate of exercise	28.1%	28.6%

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

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is a derived output of the lattice model. The expected life of employee stock options is impacted by all of the underlying assumptions used in the Company's model. The lattice model assumes that employees' exercise behavior is a function of the option's remaining contractual life and the extent to which the option is in-the-money (i.e., the average stock price during the period is above the strike price of the stock option). The lattice model estimates the probability of exercise as a function of these two variables based on the history of exercises and cancellations on past option grants made by the Company. The expected life for options granted during the quarter and nine months ended September 29, 2006 derived from the lattice model was 4.1 and 4.0 years respectively.

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

The Company continues to use the Black-Scholes option-pricing model to calculate the fair value of shares issued under the 2000 Employee Stock Purchase Plan. The weighted-average fair value of shares issued under the Employee Stock Purchase Plan during the quarter and nine months ended September 29, 2006 was $1.51 per share and $1.45 per share. The weighted-average assumptions used in the pricing model are as follows:

Employee Stock Purchase Plan	Quarter Ended September 29, 2006	Nine Months Ended September 29, 2006
Expected life (in years)	0.25	0.25
Risk-free interest rate	5.01%	4.70%
Volatility	51.00%	49.00%

Total estimated share-based compensation expense, related to the Company's employee stock options and employee stock purchase plan, recognized for the quarter and nine months ended September 29, 2006 was comprised as follows (in millions, except per share data):

	Quarter Ended September 29, 2006	Nine Months Ended September 29, 2006
Cost of revenues	$ 0.7	$ 1.7
Research and development	0.5	1.2
Selling and marketing	0.6	1.6
General and administrative	1.1	2.7
Share-based compensation expense before income taxes	2.9	7.2
Related income tax benefits [(1)]	—	—
Share-based compensation expense, net of taxes	$ 2.9	$ 7.2
Net share-based compensation expense, per common share:		
Basic	$ 0.01	$ 0.02
Diluted	$ 0.01	$ 0.02

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

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The Company recorded $0.4 million and $1.7 million in share-based compensation expense during the quarter and nine months ended September 29, 2006, respectively, related to share-based awards granted during the quarter and nine months ended September 29, 2006. This included expense related to the Employee Stock Purchase Plan of $0.3 million and $0.6 million during the quarter and nine months ended September 29, 2006, respectively, and $0.1 million of expense related to awards of restricted stock units in the nine months ending September 29, 2006. The remaining expense is related to share-based awards that were granted prior to December 31, 2005.

Pro Forma Information under SFAS No. 123 for the quarter and nine months ended September 30, 2005

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

For purposes of pro forma disclosures under SFAS No. 123 for the quarter and nine months ended September 30, 2005, the estimated fair value of the stock options was assumed to be amortized to expense over the stock options' vesting periods. The pro forma effects of recognizing estimated compensation expense under the fair value method on net income and earnings per common share for the quarter and nine months ended September 30, 2005 were as follows (in millions, except per share data):

	Quarter Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	$ 23.5	$ 56.8
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	—
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(3.1)	(10.1)
Pro-forma net income	20.4	46.7
Less: Accretion to redemption value of convertible redeemable preferred stock	0.1	0.3
Less: Convertible redeemable preferred stock dividends	(2.7)	(7.9)
Less: Allocation of undistributed earnings to preferred shareholders	(2.8)	(6.1)
Net income applicable to common stock	$ 15.0	$ 33.0
Income per share:		
Basic—as reported	$ 0.07	$ 0.16
Basic—pro-forma	$ 0.06	$ 0.13
Diluted—as reported	$ 0.06	$ 0.15
Diluted—pro-forma	$ 0.05	$ 0.12

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The fair value of option grants during the respective period was estimated at the date of grant while the fair value of the shares issued under the ON Semiconductor 2000 Employee Stock Purchase Plan was estimated at the beginning of the respective offering periods. The weighted-average Black-Scholes equivalent assumptions for the quarter and nine months ended September 30, 2005, for employee stock options are detailed below:

Employee Stock Options	Quarter Ended September 30, 2005	Nine Months Ended September 30, 2005
Expected life (in years)	3.81	3.82
Risk-free interest rate	4.03%	3.64%
Volatility	59.00%	59.00%

The fair value of the Employee Stock Purchase Plan shares issued during the quarter and nine months ended September 30, 2005 has been calculated using the Black-Scholes option-pricing model with the weighted-average assumptions detailed below:

Employee Stock Purchase Plan	Quarter Ended September 30, 2005	Nine Months Ended September 30, 2005
Expected life (in years)	0.25	0.25
Risk-free interest rate	3.17%	2.73%
Volatility	52.00%	58.00%

The weighted-average estimated fair value of employee stock options granted during the quarter and nine months ended September 30, 2005 was $2.59 and $2.22 per share, respectively. The weighted-average estimated fair value of the shares issued under the 2000 Employee Stock Purchase Plan during the quarter and nine months ended September 30, 2005 was $1.10 and $1.08 per share, respectively.

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

	Nine Months Ended September 29, 2006			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (In-The-Money)
Outstanding at December 31, 2005	27.6	$ 4.92		
Grants	5.6	6.63		
Exercises	(3.1)	3.19		
Cancellations	(1.3)	7.46		
Outstanding at September 29, 2006	28.8	$ 5.33	6.89	$ 40.7
Exercisable at September 29, 2006	16.4	$ 5.37	5.63	$ 28.3

Net stock options, after forfeitures and cancellations, granted during the quarter ended September 29, 2006 and September 30, 2005 represented 0.02% and (0.2%) of outstanding shares as of the beginning of each such fiscal quarter, respectively. Total stock options granted during the quarter ended September 29, 2006 and

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September 30, 2005 represented 0.1% and 0.1% of outstanding shares as of the end of each such fiscal quarter, respectively.

At September 29, 2006, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was $18.9 million, which is expected to be recognized over a weighted average period of 1.6 years. The total intrinsic value of stock options exercised during the quarter ended September 29, 2006 was $1.3 million. The Company recorded cash received from the exercise of stock options of $1.1 million and cash from issuance of shares under the Employee Stock Purchase Plan of $1.0 million and no related tax benefits during the quarter ended September 29, 2006. Upon option exercise or completion of a purchase under the Employee Stock Purchase Plan the Company issues new shares of stock.

Additional information about stock options outstanding at September 29, 2006 with exercise prices less than or above $5.88 per share, the closing price at September 29, 2006, follows (number of shares in millions):

	Exerciseable		Unexercisable		Total	
Exercise Prices	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Less than $5.88	8.9	$ 2.70	6.8	$ 4.07	15.7	$ 3.29
Above $5.88	7.5	$ 8.55	5.6	$ 6.74	13.1	$ 7.78
Total outstanding	16.4	$ 5.37	12.4	$ 5.27	28.8	$ 5.33

Restricted Stock Units

The Company's stock compensation plan permits the granting of restricted stock units to eligible employees and non-employee directors at fair market value at the date of the grant. Restricted stock units vest over three years and are payable in shares of the Company's stock upon vesting. The following table presents a summary of the status of the Company's non-vested restricted stock units granted to certain officers and directors of the Company as of September 29, 2006, and changes during the nine months ended September 29, 2006.

	Nine Months Ended September 29, 2006	
	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested shares of restricted stock units at December 31, 2005	—	$ —
Granted	0.4	6.20
Vested	—	—
Forfeited	—	—
Nonvested shares of restricted stock units at September 29, 2006	0.4	$ 6.20

As of September 29, 2006, there was approximately $1.5 million of total unrecognized compensation cost related to non-vested restricted stock units granted under the plan. The cost is expected to be recognized over the vesting period. Compensation expense related to restricted stock units was $0.2 million for the quarter ended September 29, 2006. As of September 29, 2006, the Company had approximately 0.4 million restricted stock units outstanding.

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Employee Stock Purchase Plans

On February 17, 2000, the Company adopted the 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company's eligible employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of the Company's common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. Employees are limited to annual purchases of $25,000 under this plan. In addition, during each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to $6,250 divided by the fair market value of the stock on the first day of the offering period. During the quarter and nine months ended September 29, 2006 and the quarter and nine months ended September 30, 2005 employees purchased approximately 201,553 and 422,319 and 122,317 and 364,204 shares under the plan, respectively. Through December 31, 2004, shareholders have approved amendments to the 2000 Employee Stock Purchase Plan which have increased the number of shares of the Company's common stock issuable thereunder to 8.5 million shares. As of September 29, 2006, there were 3.1 million shares available for issuance under the Employee Stock Purchase Plan.

Note 11: Commitments and Contingencies

Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of September 29, 2006 (in millions):

Remainder of 2006 [1]	$ 2.2
2007	4.3
2008	2.6
2009	1.9
2010	0.7
Thereafter	1.8
Total	$13.5

(1) Minimum payments have not been reduced by minimum sublease rentals of $0.8 million due in the future under subleases. Minimum payments include the interest portion of payments for capital lease obligations.

Other Contingencies

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

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

In connection with the purchase of the Gresham facility (see Note 5: Asset Acquisition), we entered into a wafer supply and test service agreement with LSI pursuant to which (1) we will manufacture and provide semiconductor wafer products to LSI, and (2) we will provide certain sort test, processing engineering, quality assurance and other similar and related services that LSI may request. LSI is obligated to purchase $198.8 million of wafer products and related services (such as wafer testing and sorting services) from us during the first two years under the agreement, dated May 15, 2006. We also entered into several ancillary agreements including, but not limited to, an intellectual property license, a transition services agreement and a facility use agreement.

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

Indemnification Contingencies

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

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

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

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

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

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

Legal Matters

The Company currently involved in a variety of legal matters that arise in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters, including the matter described in the next paragraphs, will have a material adverse effect on our financial condition, results of operations or cash flows. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

Securities Class Action Litigation

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

On July 15, 2002, together with the other issuer defendants, the Company filed a collective motion to dismiss the consolidated, amended complaints against the issuers on various legal grounds common to all or most

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

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

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

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

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

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Note 12: Related Party Transactions

As described in *Note 1: Background and Basis of Presentation*, on August 4, 1999, certain related transactions were effected pursuant to an agreement among the Company, SCI LLC and TPG. As of September 29, 2006, TPG owned approximately 36.7% of the Company's outstanding shares of common stock.

In connection with the amendment to the Company's senior bank facilities in August 2001, any management fees payable to TPG or its affiliates by the Company will not accrue and not be payable in cash until the Company's quarterly financial statements demonstrate that certain financial ratios have been achieved. TPG subsequently agreed that these fees will not accrue during the period in which the Company was not permitted to pay such fees in cash. During 2004, no TPG management fee was paid or accrued. During the fourth quarter of 2004, the Company met the requisite conditions under its amended debt agreements to allow for such annual management fee to resume. However, no services were performed by TPG during the fourth quarter of 2004, and accordingly no annual management fees were accrued for or paid during the year. During the first quarter of 2005, TPG waived the right to any future management fee subject to the Company paying certain costs and expenses associated with a resale shelf registration statement of the Company's common stock presently owned by TPG.

Note 13: Recent Accounting Pronouncements

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

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

In June 2006, the FASB ratified EITF Issue No. 05-01 "Accounting for the Conversion of an Instrument That Becomes Convertible upon the Issuer's Exercise of a Call Option" ("Issue No. 05-01"). Issue No. 05-01

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

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

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

In September of 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value under generally accepted accounting procedures and expands disclosures on fair value measurements. This statement applies under previously established valuation pronouncements and does not require the changing of any fair value measurements, though it may cause some valuation procedures to change. Under SFAS No. 157, fair value is established by the price that would be received to sell the item or the amount to be paid to transfer the liability of the asset as opposed to the price to be paid for the asset or received to transfer the liability. Further, it defines fair value as a market specific valuation as opposed to an entity specific valuation, though the statement does recognize that there may be instances when the low amount of market activity for a particular item or liability may challenge an entity's ability to establish a market amount. In the instances that the item is restricted, this pronouncement states that the owner of the asset or liability should take into consideration what affects the restriction would have if viewed from the perspective of the buyer or assumer of the liability. This statement is effective for all assets valued in financial statements for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 to its financial position and result of operations.

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In September of 2006, the FASB issued SFAS No. 158 "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). SFAS No. 158 requires companies to recognize the funded status of a benefit plan (difference between plan assets at fair value and the benefit obligation) in the statement of financial position as well as to list in other comprehensive income, net of tax, the gains and losses and prior service costs or credit that were accrued during the financial period but were not recognized as part of the net periodic benefit cost under SFAS No. 87 "Employer's Accounting for Pension" or SFAS No. 106 "Employer's Accounting for Postretirement Benefits Other Than Pensions". It also requires all benefit plans (postretirement or otherwise) to be valued at the end of each fiscal year. Companies must disclose in the notes to financial statements any delayed gain or loss related to net periodic benefit cost. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company is currently evaluating the impact of SFAS No. 158 to its financial position and results of operations.

In September of 2006, the Securities and Exchange Commission released Staff Accounting Bulletin No. 108 "Considering the effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 suggests that a registrant's materiality evaluation of an identified unadjusted error should quantify the effects of the identified unadjusted error on each financial statement and related financial statement disclosure. SAB 108 was issued on September 13, 2006. The Company's adoption of SAB No. 108 is not expected to impact its financial position and results of operations.

Note 14: Segment Information

In May 2006, the Company announced a change in its organizational structure. The Company has organized into five operating segments: automotive and power supply, digital and consumer, computing, standard products (which includes products that are sold in many different end-markets) and manufacturing services. Each of the Company's major product lines has been examined and each product line has been assigned to a segment, as illustrated in the table below, based on the Company's operating strategy. Because many products are sold into different end markets, the total revenue reported for a segment is not indicative of actual sales in the end market associated with that segment, but rather is the sum of the revenue from the product lines assigned to that segment. The Company's manufacturing services, in which the Company manufactures parts for other semiconductor companies, principally in the newly acquired Gresham, Oregon facility, are reported in the manufacturing services segment. These segments represent the Company's view of the business and as such are used to evaluate progress of major incentives. Information related to periods prior to this change have been revised to conform to the current presentation.

Automotive & Power Supply	Computing Products	Digital & Consumer Products	Standard Products	Manufacturing Services
AC-DC Conversion	Low & Medium MOSFET	Analog Switches	Bipolar Power	Manufacturing Services
Analog Automotive	Power Switching	Filters	Thyristor	
DC-DC Conversion	Signal & Interface	Low Voltage	Small Signal	
Rectifier		App. Specific Int. Power	Zener	
High Voltage MOSFET			Protection	
LDO & Vregs			High Frequency Standard Logic	

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company does not specifically identify and allocate any assets by operating segment.

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The Company evaluates performance based on gross profit as well as income or loss from operations before interest, nonrecurring gains and losses, foreign exchange gains and losses, income taxes and certain other unallocated expenses.

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

In addition to the operating segments mentioned above, the Company also operates global operations, sales and marketing, information systems, finance and administration groups that are led by executive or senior vice presidents who report to the Chief Executive Officer. The expenses of these groups are allocated to the operating segments based on specific and general criteria and are included in the operating results reported below. The Company does not allocate income taxes or interest expense to its operating segments as the operating segments are principally evaluated on operating profit before interest and taxes. Additionally, restructuring, asset impairments and other, net and certain other manufacturing and operating expenses, which include corporate research and development costs, inventory reserves and miscellaneous nonrecurring expenses, are not allocated to any product segment.

Information about segments for the quarter and nine months ended September 29, 2006 and for the quarter and nine months ended September 30, 2005 is as follows, in millions:

	Automotive & Power Supply	Computing Products	Digital & Consumer Products	Standard Products	Manufacturing Services	Total
Quarter ended September 29, 2006:						
Revenues from external customers	$ 107.8	$ 93.0	$ 42.0	$ 129.4	$ 48.7	$ 420.9
Segment gross profit	$ 46.5	$ 33.9	$ 21.4	$ 54.4	$ 11.6	$ 167.8
Segment operating income	$ 24.5	$ 18.0	$ 9.4	$ 35.4	$ 10.9	$ 98.2
Quarter ended September 30, 2005:						
Revenues from external customers	$ 94.5	$ 63.7	$ 32.2	$ 122.0	$ 1.2	$ 313.6
Segment gross profit	$ 31.5	$ 22.4	$ 14.1	$ 48.2	$ 0.7	$ 116.9
Segment operating income	$ 14.0	$ 8.9	$ 4.6	$ 28.8	$ 0.7	$ 57.0

	Automotive & Power Supply	Computing Products	Digital & Consumer Products	Standard Products	Manufacturing Services	Total
Nine months ended September 29, 2006:						
Revenues from external customers	$ 314.4	$ 254.0	$ 94.6	$ 403.7	$ 63.5	$1,130.2
Segment gross profit	$ 133.1	$ 90.0	$ 48.8	$ 172.4	$ 14.7	$ 459.0
Segment operating income	$ 69.9	$ 45.6	$ 19.4	$ 109.0	$ 13.6	$ 257.5
Nine months ended September 30, 2005						
Revenues from external customers	$ 275.7	$ 193.6	$ 95.7	$ 351.1	$ 2.7	$ 918.8
Segment gross profit	$ 97.3	$ 62.0	$ 45.1	$ 130.9	$ 1.5	$ 336.8
Segment operating income	$ 42.5	$ 22.3	$ 16.7	$ 75.8	$ 1.5	$ 158.8

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

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

	Quarter Ended		Nine Months Ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Gross profit for reportable segments	$ 167.8	$ 116.9	$ 459.0	$ 336.8
Unallocated amounts:				
Other unallocated manufacturing costs	(7.4)	(12.8)	(27.7)	(38.0)
Gross profit	$ 160.4	$ 104.1	$ 431.3	$ 298.8
Operating income for reportable segments	$ 98.2	$ 57.0	$ 257.5	$ 158.8
Unallocated amounts:				
Restructuring, asset impairments and other, net	—	(0.2)	(3.3)	(4.1)
Other unallocated manufacturing costs	(7.4)	(12.8)	(27.7)	(38.0)
Other unallocated operating expenses	(2.6)	(1.8)	(4.7)	(5.9)
Operating income	$ 88.2	$ 42.2	$ 221.8	$ 110.8

The Company operates in various geographic locations. Sales to unaffiliated customers have little correlation with the location of manufacturers. The Company conducts a substantial portion of its operations outside of the United States and is subject to risks associated with non-U.S. operations, such as political risks, currency controls and fluctuations, tariffs, import controls and air transportation.

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

	Quarter Ended	
	September 29, 2006	September 30, 2005
United States	$ 123.0	$ 74.6
United Kingdom	57.9	48.3
China	150.3	111.6
Singapore	43.0	35.0
Other Asia/Pacific	46.7	44.1
Total Revenues	$ 420.9	$ 313.6

	Nine Months Ended	
	September 29, 2006	September 30, 2005
United States	$ 292.7	$ 225.1
United Kingdom	169.1	154.9
The Other Europe	—	0.1
China	411.3	299.6
Singapore	120.8	101.8
Other Asia/Pacific	136.3	137.3
Total Revenues	$ 1,130.2	$ 918.8

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

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

	September 29, 2006	December 31, 2005
United States	$ 167.0	$ 77.1
China	106.8	110.6
Europe	93.0	85.6
Malaysia	89.5	74.3
Japan	69.5	64.3
Other Asia/Pacific	37.8	25.7
Other Americas	3.5	0.9
	$ 567.1	$ 438.5

For the quarter ended September 29, 2006, two of the Company's customers accounted for 12% and 10% of the Company's total revenues, respectively, of which 10% has been recorded as manufacturing services revenue. For the nine months ended September 29, 2006, one of the Company's customers accounted for 12% of the Company's total revenues, applicable to all segments except for manufacturing services revenue.

For the quarter ended September 30, 2005, two of the Company's customers accounted for 11% and 10% of the Company's total revenues, respectively, applicable to all segments except for manufacturing services revenue. For the nine months ended September 30, 2005, one of the Company's customers accounted for 12% of the Company's total revenues, applicable to all segments except for manufacturing services revenue.

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

You should read the following discussion in conjunction with our audited historical consolidated financial statements, which are included in our Form 10-K, filed with the SEC on February 22, 2006. Management's Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risk, uncertainties and other factors. Actual results could differ materially because of certain factors discussed below or elsewhere in this Form 10-Q.

Executive Overview

This section presents summary information regarding our industry, markets and operating trends only. For further information regarding the events summarized herein, you should read "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its entirety.

Industry Overview

We participate in unit and revenue surveys and use data summarized by the World Semiconductor Trade Statistics ("WSTS") group to evaluate overall semiconductor market trends and also to track our progress against the total market in the areas we provide semiconductor components. The most recently published estimates of WSTS project a compound annual growth rate in our total addressable market of approximately 9% during 2006 through 2009. These are projections and may not be indicative of actual results.

Business and Company Overview

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

We serve a broad base of end-user markets, including computing, automotive electronics, consumer electronics, industrial electronics, wireless communications and networking. Applications for our products in these markets include portable electronics, computers, game stations, servers, automotive and industrial automation control systems, routers, switches, storage-area networks and automated test equipment.

Our extensive portfolio of devices enables us to offer advanced integrated circuits and the "building block" components that deliver system level functionality and design solutions. Our product portfolio currently comprises approximately 30,500 products and we shipped approximately 22.9 billion units in the first nine months of 2006 as compared to approximately 20.4 billion units in the first nine months of 2005. We specialize in micro packages, which offer increased performance characteristics while reducing the critical board space inside today's ever shrinking electronic devices. We believe that our ability to offer a broad range of products provides our customers with single source purchasing on a cost-effective and timely basis.

In May 2006, we announced a change in our organizational structure. The Company has organized into five operating segments: automotive and power supply, digital and consumer, computing, standard products (which includes products that are sold in many different end-markets) and manufacturing services. Each of our major product lines has been assigned to a segment, as illustrated in the table below, based on our operating strategy. Because many products are sold into different end markets, the total revenue reported for a segment is not indicative of actual sales in the end market associated with that segment, but rather is the sum of the revenues from the product lines assigned to that segment. Our manufacturing services, in which we manufacture parts for other semiconductor companies, principally in our newly acquired Gresham, Oregon facility, are reported in the manufacturing services segment. These segments represent our view of the business and as such are used to evaluate progress of major initiatives. Information related to periods prior to this change have been revised to conform to the current presentation.

Automotive & Power Supply	Computing Products	Digital & Consumer Products	Standard Products	Manufacturing Services
AC-DC Conversion	Low & Medium MOSFET	Analog Switches	Bipolar Power	Manufacturing Services
Analog Automotive	Power Switching	Filters	Thyristor	
DC-DC Conversion	Signal & Interface	Low Voltage	Small Signal	
Rectifier		App. Specific Int. Power	Zener	
High Voltage MOSFET			Protection	
LDO & Vregs			High Frequency Standard Logic	

In periods prior to the change, these various product lines were aligned into two segments; the Analog Products Group and the Integrated Power Group.

We have approximately 179 direct customers worldwide, and we also service approximately 222 significant original equipment manufacturers indirectly through our distributor and electronic manufacturing service provider customers. Our direct and indirect customers include: (1) leading original equipment manufacturers in a broad variety of industries, such as Apple, Hewlett Packard, Microsoft, Intel, Motorola, Seagate, Siemens and Sony; (2) electronic manufacturing service providers, such as Flextronics, Jabil and Solectron; and (3) global distributors, such as Arrow, Avnet, Continental Automotive Systems, EBV Elektronik, Future, Solomon Enterprise and World Peace.

We currently have major design operations in Arizona, Rhode Island, Texas, Oregon, China, the Czech Republic, Korea, and France, and we currently operate manufacturing facilities in Arizona, Oregon, China, the Czech Republic, Japan, Malaysia, the Philippines, and Slovakia. We ceased manufacturing operations at our Rhode Island manufacturing facility in the second quarter of 2005 and exited the facility in the fourth quarter of 2005. The Rhode Island manufacturing facility is currently being marketed for sale. In the second quarter of 2005, we announced the transfer of wafer fabrication manufacturing operations from our front-end fabrication facility in Malaysia to Arizona. Due to the current increase in demand from our customers, during the second quarter of 2006 we have decided to keep the wafer fabrication portion of the Malaysian site open and will evaluate the continued operation of this facility over the next several quarters. We also plan to sell certain unused portions of our property at our corporate headquarters in Arizona and use some of the proceeds from the sale to upgrade portions of our corporate headquarters. We will maintain our headquarters offices and existing manufacturing facilities on the portions of the property that are not for sale.

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

SCI LLC when the purchase was finalized on May 15, 2006. We incurred approximately $1.5 million in legal, accounting and appraisal fees related to the transaction, which, with the purchase price of $105.0 million, were allocated to the assets purchased based on their relative fair values. See Note 5 "Asset Acquisition" for further discussion.

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

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

During the third quarter of 2006, we experienced stable prices for our products while end market demand showed signs of moderation. We experienced a slight decline in bookings during the third quarter with the book to bill ratio below one for the first time in six quarters. We expect pricing trends during the rest of 2006 to be more of a factor of the specific supply and demand environment for a given device and on average for prices to be down approximately 1% from the third quarter of 2006. We have a minimum purchase agreement with LSI for foundry services that obligates them to purchase an estimated $198.8 million of foundry services from us between May 2006 and May 2008.

New Product Innovation

As a result of the success of our research and development initiatives, excluding the introduction of lead-free products, we introduced 133 new product families in 2005 and an additional 114 new product families in the first nine months of 2006. Our new product development efforts continue to be focused on building solutions in power management that appeal to customers in focused market segments and across multiple high growth applications. In light of the recent acquisition of the Gresham, Oregon wafer fabrication facility, we are increasing our research and development in deep sub micron power management solutions to further differentiate us from our competition. As always, it is our practice to regularly re-evaluate our research and development spending, to assess the deployment of resources and to review the funding of high growth technologies regularly. We deploy people and capital with the goal of maximizing our investment in research and development in order to position us for continued growth. As a result, we often invest opportunistically to refresh existing products in our commodity logic, analog, and discrete products. We invest in these initiatives when we believe there is a strong customer demand or opportunities to innovate our current portfolio in high growth markets and applications.

Cost Savings and Restructuring Activities

Since the fourth quarter of 2000, we have been implementing profitability enhancement programs to improve our cost structure and, as a result, we expect to rank, as compared to our primary competitors, among the lowest in terms of cost structure.

Our 2004 profitability enhancement program includes the following:

- The phase out of our manufacturing operations in East Greenwich, Rhode Island, which was announced in December 2003, and our assembly and test operations in the Czech Republic, which was announced in November 2003. We began to realize the full benefit of savings from this program by the end of the fourth quarter of 2005, when the closure of our operations in East Greenwich was completed with all manufacturing equipment decommissioned and removed. During the fourth quarter of 2005, we successfully completed the work related to the decommissioning of the manufacturing building, which is currently being marketed for sale. We expect to incur marginal operating expenses in 2006 to maintain the building until the sale is completed. Overall, we expect the full cost savings from these activities will produce at least $20 million to $25 million of annual cost savings which began in first quarter of 2006.
- In the second quarter of 2004, we evaluated our operations in the Czech Republic and determined certain overhead functions were no longer necessary as a result of our previously announced transfer of our back-end manufacturing lines in Roznov to Malaysia and the Philippines. Following the reduction of such overhead functions, we realized approximately $7.7 million of actual cost savings in 2005.
- In the first quarter of 2004, we entered into a five-year agreement with respect to the outsourcing of information technology infrastructure. As part of the agreement, we sold certain system software modules, resulting in a loss on disposal of assets of $12.0 million. As a result of these actions, starting in the second quarter of 2004, we began to realize approximately $4.0 million of annualized cost savings that reduces our general and administrative expenses due to reduced depreciation expense.

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

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

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

Debt Reduction and Financing Activities

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

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

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

In July 2006, we completed an offer to exchange substantially all of our zero coupon convertible senior subordinated notes due 2024 for new notes with similar terms, but with a net share settlement feature.

In the third quarter of 2006 we refinanced our debt with two Chinese banks to reduce our interest costs and to extend maturity dates. We also entered into $11.0 million of new debt with these banks.

The details of each of these financing events are outlined in the following sections. Also, see "Liquidity and Capital Resources" elsewhere in this report Note 9 "Common Stock" of the notes to our unaudited consolidated financial statements included elsewhere in this report.

Outlook

Based on product booking trends, backlog levels, anticipated manufacturing services revenue and estimated turns levels, we anticipate that revenues will be approximately $390 million to $400 million in the fourth quarter as compared to revenues of $342.0 million in the fourth quarter of 2005 and revenues of $420.9 million in the third quarter of 2006. We also anticipate that approximately $30 million to $35 million of our total revenues will come from manufacturing services revenue during the fourth quarter of 2006. Backlog levels at the beginning of the fourth quarter of 2006 were down from backlog levels at the beginning of the third quarter of 2006, and represent well over 90 percent of our anticipated fourth quarter revenues. We expect average selling prices for the fourth quarter of 2006 will be down one percent as compared to the third quarter of 2006. We expect our gross margins on product revenues to range from 38 to 39 percent and we expect our gross margins on manufacturing services revenue to be approximately break-even in the fourth quarter of 2006. Beginning in the first quarter of 2006, we were required to expense stock based compensation in accordance with the adoption of Statement of Financial Accounting No. 123(R) *"Share Based Payment"*. We currently expect this expense to be approximately $3.0 million in the fourth quarter of 2006.

For the fourth quarter of 2006, we expect selling and marketing and general and administrative expenses to be approximately 11% to 12% of revenues and research and development expenses to be approximately 7% of revenues. We anticipate that net interest expense will be approximately $10.5 million for the fourth quarter 2006. For the fourth quarter of 2006, we expect cash capital expenditures of approximately $40 million.

Results of Operations

Quarter Ended September 29, 2006 Compared to Quarter Ended September 30, 2005

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements for the quarters ended September 29, 2006 and September 30, 2005. The amounts in the following table are in millions:

	Quarter Ended		
	September 29, 2006	September 30, 2005	Dollar Change
Product revenues	$ 372.2	$ 312.4	$ 59.8
Manufacturing service revenues	48.7	1.2	47.5
Net revenues	420.9	313.6	107.3
Cost of product revenues	223.2	208.9	14.3
Cost of manufacturing services revenues	37.3	0.6	36.7
Cost of revenues	260.5	209.5	51.0
Gross profit	160.4	104.1	56.3
Operating expenses:			
Research and development	25.9	23.9	2.0
Selling and marketing	23.2	20.0	3.2
General and administrative	23.1	17.8	5.3
Restructuring, asset impairments and other, net	—	0.2	(0.2)
Total operating expenses	72.2	61.9	10.3
Operating income	88.2	42.2	46.0
Other income (expenses), net:			
Interest expense	(13.8)	(16.1)	2.3
Interest income	3.6	1.7	1.9
Other	(0.7)	(0.8)	0.1
Other income (expenses), net	(10.9)	(15.2)	4.3
			—
Income before income taxes and minority interests	77.3	27.0	50.3
Income tax provision	—	(2.5)	2.5
Minority interests	(0.5)	(1.0)	0.5
Net income	$ 76.8	$ 23.5	$ 53.3

Revenues

Revenues were $420.9 million and $313.6 million during the quarter ended September 29, 2006 and the quarter ended September 30, 2005, respectively. The increase from the third quarter of 2005 to the third quarter of 2006 was primarily due to increased product volume and manufacturing services revenue resulting from the acquisition of LSI's Gresham, Oregon wafer fabrication facility, partially offset by a decrease in average selling prices by approximately 3%. For more information on our asset acquisition see Note 5 "Asset Acquisition" of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q. As indicated in the table below, the increase was most pronounced in the manufacturing services and in the computing products segments. Our average selling prices in the third quarter of 2006 relative to the second quarter of 2006 remained flat. The revenues by product line are as follows (dollars in millions):

	Quarter Ended September 29, 2006	As a % Revenue	Quarter Ended September 30, 2005	As a % Revenue	Dollar Change	% Change
Automotive and Power Supply	$ 107.8	25.6%	$ 94.5	30.1%	$ 13.3	14.1%
Computing Products	93.0	22.1%	63.7	20.3%	29.3	46.0%
Digital and Consumer Products	42.0	10.0%	32.2	10.3%	9.8	30.4%
Standard Products	129.4	30.7%	122.0	38.9%	7.4	6.1%
Manufacturing Services	48.7	11.6%	1.2	0.4%	47.5	3958.3%
Total Revenues	$ 420.9		$ 313.6		$107.3	

Revenues from our automotive and power supply increased $13.3 million, or 14.1%, in the third quarter of 2006 as compared to the third quarter of 2005. The increase can be attributed to an increase in revenues from the analog automotive and AC to DC conversion products, slightly offset by a decrease in revenues from rectifier products.

Revenues from computing products increased $29.3 million, or 46.0%, in the third quarter of 2006 as compared to the third quarter of 2005. The increase can be attributed to an increase in revenues from the low and medium voltage MOSFET and power switching products.

Revenues from digital and consumer components increased $9.8 million, or 30.4%, in the third quarter of 2006 as compared to the third quarter of 2005. This increase is due to increased revenues from analog switches and filters.

Revenues from standard products increased $7.4 million, or 6.1%, in the third quarter of 2006, as compared to the third quarter of 2005. The increase can be primarily attributed to an increase in revenues from zener and protection products, partially offset by a decrease in revenues from high frequency products.

Additionally, revenue growth in manufacturing services is due to manufacturing services revenue from wafer supply agreement with LSI.

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

	Quarter Ended September 29, 2006	As a % Revenue	Quarter Ended September 30, 2005	As a % Revenue
Americas	$ 123.0	29%	$ 74.6	24%
Asia Pacific	240.0	57%	190.7	61%
Europe	57.9	14%	48.3	15%
Total	$ 420.9	100%	$ 313.6	100%

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices.

For the quarter ended September 29, 2006, two of our customers accounted for 12% and 10% of our net revenues, respectively, of which an aggregate of 10% was attributable to manufacturing services revenue.

For the quarter ended September 30, 2005, two of our customers accounted for 11% and 10% of our net revenues, respectively, excluding manufacturing services revenue.

Approximately 15% of the Company's revenues for the quarter and the nine months ended September 29, 2006, respectively, are attributable to its various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation ("Delphi"), one of the Company's automotive customers, and certain of Delphi's U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the quarter and nine months ended September 29, 2006, the Company's revenues from Delphi accounted for less than 3% of its total revenues and approximately $5.4 million of its receivables due from Delphi as of September 29, 2006 are subject to collection pending resolution of the reorganization proceedings.

Gross Profit

Our gross profit was $160.4 million in the third quarter of 2006 compared to $104.1 million in the third quarter of 2005. As a percentage of revenues, our gross profit was 38.1% in the third quarter of 2006 as compared to 33.2% in the third quarter of 2005. Gross profit increased during the third quarter of 2006 as compared to the third quarter of 2005 primarily due to increased sales volume, manufacturing service revenue from our Gresham, Oregon wafer fabrication and a reduction in depreciation expense of approximately $6.8 million resulting from a change in our estimate of the useful life of our machinery and equipment assets, partially offset by a decrease in average selling prices.

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

	Quarter Ended September 29, 2006	As a % Revenue	Quarter Ended September 30, 2005	As a % Revenue	Dollar Change	% Change
Automotive & Power Supply	$ 46.5	43.1%	$ 31.5	33.3%	$ 15.0	47.6%
Computing Products	33.9	36.5%	22.4	35.2%	11.5	51.3%
Digital & Consumer Products	21.4	51.0%	14.1	43.8%	7.3	51.8%
Standard Products	54.4	42.0%	48.2	39.5%	6.2	12.9%
Manufacturing Services	11.6	23.8%	0.7	58.3%	10.9	1557.1%
Gross profit by segment	$ 167.8		$ 116.8		$ 50.9	
Unallocated manufacturing costs	(7.4)		(12.8)			
Total gross profit	$ 160.4		$ 104.1			

Gross profit from our automotive and power supply segment increased $15.0 million, or 47.6%, in the third quarter of 2006 as compared to the third quarter of 2005. The increase can be attributed to increased gross profit from DC to DC conversion, rectifier, and LDO & voltage regulators products, partially offset by decreases in gross profit from AC to DC conversion and analog automotive products.

Gross profit from computing products increased $11.5 million, or 51.3%, in the third quarter of 2006 as compared to the third quarter of 2005. The increase in gross profit can be attributed to increases low and medium voltage MOSFET, power switching, and signal and interface products.

Gross profit from digital and consumer products increased $7.3 million, or 51.8%, in the third quarter of 2006 as compared to the third quarter of 2005. The increase can be attributed to increases in gross profit in the analog switches, filters, and low voltage, off set partially with a decrease in gross profit from standard logic products.

Gross profit from standard products increased $6.2 million, or 12.9%, in the third quarter of 2006 as compared to the third quarter of 2005. The increase can be primarily attributed to an increase in gross profit from zener, protection, and standard logic products, partially off set by a decrease in gross profit in high frequency products.

Gross profit from manufacturing services increased $10.9 million in the third quarter of 2006 as compared to the third quarter of 2005. The increase can be attributed to the added value from the purchase of LSI's Gresham, Oregon wafer fabrication facility in the second quarter of 2006.

Operating Expenses

Research and development expenses were $25.9 million in the third quarter of 2006 compared to $23.9 million in the third quarter of 2005, representing an increase of $2.0 million, or 8.4%. Research and development expenses represented 6.2% and 7.6% of revenues in the third quarter of 2006 and the third quarter of 2005, respectively. Of the $2.0 million increase in research and development approximately $1.9 million related to higher wages the remainder attributable to increased headcount and increased stock compensation expense as a result of our adoption of Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R") during the first quarter of 2006 and an increase in employee performance bonuses as a result of our achievement of certain financial goals.

Selling and marketing expenses were $23.2 million in the third quarter of 2006 compared to $20.0 million in the third quarter of 2005, representing an increase of $3.2 million, or 16%. Selling and marketing expenses represented 5.5% and 6.4% of revenues in the third quarter of 2006 and the third quarter of 2005, respectively. Of the $3.2 million increase in selling and marketing expenses approximately $1.7 million is a attributable to higher wages, with the remaining increase due to an increase in employee performance bonuses as a result of our achievement of certain financial goals, increased headcount of selling and marketing personnel primarily in our Asia Pacific locations due to our increased revenue concentration in this region and increased stock compensation expense as a result of our adoption of SFAS No. 123R during the first quarter of 2006.

General and administrative expenses were $23.1 million in the third quarter of 2006 compared to $17.8 million in the third quarter of 2005, representing an increase of $5.3 million, or 30%. General and administrative expenses represented 5.5% and 5.7% of revenues in the third quarter of 2006 and the third quarter of 2005, respectively. The $5.3 million increase in general and administrative expenses is attributable to increased stock compensation expense as a result of our adoption of SFAS No. 123R during the first quarter of 2006, severance costs for certain European employees, increased headcount and salaries, and an increase in employee performance bonuses as a result of our achievement of certain financial goals.

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

Restructuring, asset impairments and other, net were zero in the third quarter of 2006 compared to $0.2 million in the third quarter of 2005.

During the third quarter of 2005, we recorded $0.2 million in restructuring, asset impairment and other, net charges, which included $0.3 million of employee separation charges related to the general work force reductions announced in the June 2005 restructuring program attributable to two employees who rendered services beyond the notification period and to four employees who were notified of their termination after the second quarter of 2005. This change was partially offset by a $0.1 million reversal of amounts previously recorded in connection with the shutdown of the East Greenwich facility announced in December 2003.

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For more information on our restructuring activity see Note 6 “Restructuring, Asset Impairments and Other, Net” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Operating Income

Information about operating income from our reportable segments for the quarters ended September 29, 2006 and September 30, 2005 are as follows, in millions:

	Automotive & Power Supply	Computing Products	Digital & Consumer Products	Standard Products	Manufacturing Services	Total
Quarter ended September 29, 2006:						
Segment operating income	$ 24.5	$ 18.0	$ 9.4	$ 35.4	$ 10.9	$98.2
Quarter ended September 30, 2005:						
Segment operating income	$ 14.0	$ 8.9	$ 4.6	$ 28.8	$ 0.7	$57.0

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

	Quarter Ended	
	September 29, 2006	September 30, 2005
Operating income for reportable segments	$ 98.2	$ 57.0
Unallocated amounts:		
Restructuring, asset impairments and other, net	—	(0.2)
Other unallocated manufacturing costs	(7.4)	(12.8)
Other unallocated operating expenses	(2.6)	(1.8)
Operating Income	$ 88.2	$ 42.2

Interest Expense

Interest expense was $13.8 million in the third quarter of 2006 compared to $16.1 million in the third quarter of 2005. The decrease in interest expense was primarily a result of interest savings during the third quarter of 2006 that resulted from the repayment of the 10% junior subordinated note that occurred during the second half of 2005, which was partially financed with proceeds from the issuance of 1.875% convertible senior subordinated notes due 2025. Our average month-end long-term debt balance (including current maturities) in the third quarter of 2006 was $1,042.4 million with a weighted average interest rate of 5.3% compared to $1,142.2 million and a weighted average interest rate of 5.6% in the third quarter of 2005. See also “Liquidity and Capital Resources—Key Financing Events” for a description of our refinancing activities.

Provision for Income Taxes

Provision for income taxes was zero in the third quarter of 2006 compared to $2.5 million in the third quarter of 2005. The provision for the third quarter of 2006 included $2.6 million charge for income and withholding taxes of certain of our foreign operations, offset by the receipt of $2.6 million of previously accrued income tax receivable that had been fully reserved. The provision for the third quarter of 2005 related to income and withholding taxes of certain of our foreign operations. Due to our continuing domestic tax losses and tax rate differentials in our foreign subsidiaries, our effective tax rate is lower than the U.S. statutory federal income tax rate. We continue to maintain a full valuation allowance on all of our domestic deferred tax assets.

Nine Months Ended September 29, 2006 Compared to Nine Months Ended September 30, 2005

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements for the nine months ended September 29, 2006 and September 30, 2005, respectively. The amounts in the following table are in millions:

	Nine Months Ended		
	September 29, 2006	September 30, 2005	Dollar Change
Product revenues	$ 1,066.7	$ 916.1	$150.6
Manufacturing revenues	63.5	2.7	60.8
Net revenues	1,130.2	918.8	211.4
Cost of product revenues	650.1	618.7	31.4
Cost of manufacturing revenues	48.8	1.3	47.5
Cost of revenues	698.9	620.0	78.9
Gross profit	431.3	298.8	132.5
Operating expenses:			
Research and development	74.7	70.0	4.7
Selling and marketing	66.9	58.2	8.7
General and administrative	64.6	55.7	8.9
Restructuring, asset impairments and other, net	3.3	4.1	(0.8)
Total operating expenses	209.5	188.0	21.5
Operating income	221.8	110.8	111.0
Other income (expenses), net:			
Interest expense	(39.9)	(46.1)	6.2
Interest income	8.4	3.8	4.6
Other	0.1	(2.4)	2.5
Other income (expenses), net	(31.4)	(44.7)	13.3
Income before income taxes and minority interests	190.4	66.1	124.3
Income tax provision	(3.8)	(6.3)	2.5
Minority interests	(1.9)	(3.0)	1.1
Net income	$ 184.7	$ 56.8	$127.9

Revenues

Revenues were $1,130.2 million in the first nine months of 2006 as compared to $918.8 million in the first nine months of 2005. The increase from the first nine months of 2005 to the first nine months of 2006 was primarily due to increased product volume plus added manufacturing services revenue from the purchase of LSI's Gresham, Oregon wafer fabrication facility. As indicated in the table below, the increase was most pronounced in the computing, automotive and power supply and manufacturing services lines. The revenues by segment are as follows (dollars in millions):

	Nine Months Ended September 29, 2006	As a % Revenue	Nine Months Ended September 30, 2005	As a % Revenue	Dollar Change	% Change
Automotive & Power Supply	$ 314.4	27.8%	$ 275.7	30.0%	$ 38.7	14.0%
Computing Products	254.0	22.5%	193.6	21.1%	60.4	31.2%
Digital & Consumer Products	94.6	8.4%	95.7	10.4%	(1.1)	(1.1%)
Standard Products	403.7	35.7%	351.1	38.2%	52.6	15.0%
Manufacturing Services	63.5	5.6%	2.7	0.3%	60.8	2251.9%
Total Revenues	$ 1,130.2		$ 918.8		$211.4	

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

Revenues from our automotive and power supply product line increased $38.7 million, or 14.0% for the nine months ended September 29, 2006 compared to the nine months ended September 30, 2005. The increase can be attributed to an increase in revenues from our LDO & voltage regulators, DC to DC conversion and rectifier products, partially offset by a slight decrease in revenues from AC to DC conversion products.

Revenues from computing products increased $60.4 million, or 31.2%, for the nine months ended September 29, 2006, compared to the nine months ended September 30, 2005. The increase can be attributed to an increase in revenues from low and medium voltage MOSFET, power switching, signal and interface products.

Revenues from digital and consumer products decreased by $1.1 million, or 1.1%, for the nine months ended September 29, 2006, compared to the nine months ended September 30, 2005. The decrease can be attributed to decreases revenues from analog switches, standard logic, filters and low voltage products.

Revenues from standard products increased by $52.6 million, or 15.0%, for the nine months ended September 29, 2006 compared to the nine months ended September 30, 2005. The increase can be attributed to an increase in revenues from protection, high frequency, small signal and thyristor products, partially offset by decreases in revenues from standard logic, zener, and bipolar power products.

Additionally, revenue growth in the manufacturing services is also due to manufacturing services revenue from the wafer supply agreement with LSI.

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

	Nine Months Ended September 29, 2006	As a % Revenue	Nine Months Ended September 30, 2005	As a % Revenue
Americas	$ 292.7	26%	$ 225.1	24%
Asia Pacific	668.4	59%	538.7	59%
Europe	169.1	15%	155.0	17%
Total	$ 1,130.2	100%	$ 918.8	100%

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices.

For the nine months ended September 29, 2006 and September 30, 2005, one of our customers accounted for 12% of our total revenues, excluding manufacturing services revenue.

Approximately 15% of our revenues for the nine months ended September 29, 2006 are attributable to our various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation ("Delphi"), one of our automotive customers, and certain of Delphi's U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the nine months ended September 29, 2006, our revenues from Delphi accounted for less than 3% of our total annual revenues and approximately $5.4 million of our receivables due from Delphi as of September 29, 2006 are subject to collection pending resolution of the reorganization proceedings. We had reserved $1.6 million against our receivable from Delphi as of September 29, 2006.

Gross Profit

Our gross profit was $431.3 million in the first nine months of 2006 compared to $298.8 million in the first nine months of 2005. As a percentage of revenues, our gross profit was 38.1% in the first nine months of 2006 as compared to 32.5% in the first nine months of 2005. Gross profit increased during the first nine months of 2006 as compared to the first nine months of 2005 primarily due to increased sales volume, cost savings from our profitability enhancement programs and a reduction in depreciation expense of approximately $14.3 million resulting from a change in our estimate of the useful life of our machinery and equipment assets, partially offset by a decrease in average selling prices.

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

	Nine Months Ended September 29, 2006	As a % Revenue	Nine Months Ended September 30, 2005	As a % Revenue	Dollar Change	% Change
Automotive & Power Supply	$ 133.1	42.3%	$ 97.3	35.3%	$ 35.8	36.8%
Computing Products	90.0	35.4%	62.0	32.0%	28.0	45.2%
Digital & Consumer Products	48.8	51.6%	45.1	47.1%	3.7	8.2%
Standard Products	172.4	42.7%	130.9	37.3%	41.5	31.7%
Manufacturing Services	14.7	23.1%	1.5	55.6%	13.2	880.0%
Gross profit by segment	$ 459.0		$ 336.8		$122.2	
Unallocated Manufacturing costs	(27.7)		(38.0)			
Total gross profit	$ 431.3		$ 298.8			

Gross profit from our automotive and power supply segment increased $35.8 million, or 36.8%, for the nine months ended September 29, 2006 as compared to the nine months ended September 30, 2005. The increase can be attributed to increased gross profit from DC to DC conversion, rectifier, and LDO & voltage regulators products, partially offset by decreases in gross profit from AC to DC conversion and analog automotive products.

Gross profit from computing products increased $28.0 million, or 45.2%, for the nine months ended September 29, 2006 as compared to the nine months ended September 30, 2005. The increase in gross profit can be attributed to increases low and medium voltage MOSFET, power switching, and signal and interface products.

Gross profit from digital and consumer products increased $3.7 million, or 8.2%, for the nine months ended September 29, 2006 as compared to the nine months ended September 30, 2005. The increase can be attributed to increases in gross profit in the analog switches, filters, and low voltage, partially offset by a decrease in gross profit from standard logic products.

Gross profit from standard products increased $41.5 million, or 31.7%, for the nine months ended September 30, 2006 as compared to the nine months ended September 29, 2005. The increase can be primarily attributed to an increase in gross profit from zener, protection, and standard logic products, partially offset by a decrease in gross profit in high frequency products.

Gross profit from manufacturing services increased $13.2 million for the nine months ended September 29, 2006 as compared to the nine months ended September 30, 2005. The increase can be attributed to the added value from the purchase of LSI's Gresham, Oregon wafer fabrication facility in the second quarter of 2006.

Operating Expenses

Research and development expenses were $74.7 million in the first nine months of 2006 compared to $70.0 million in the first nine months of 2005, representing an increase of $4.7 million, or 6.7%. Research and development expenses represented 6.6% and 7.6% of revenues in the first nine months of 2006 and the first nine months of 2005, respectively. Of the $4.7 million increase in research and development approximately

$3.6 million attributable to increased headcount of our research and development personnel primarily as a result of the acquisition of LSI's Gresham Oregon wafer fabrication facility with the remaining increase attributable to employee performance bonuses as a result of our achievement of certain financial goals and increased stock compensation expense as a result of our adoption of Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R") during the first quarter of 2006.

Selling and marketing expenses were $66.9 million in the first nine months of 2006 compared to $58.2 million in the first nine months of 2005, representing an increase of $8.7 million, or 14.9%. Selling and marketing expenses represented 5.9% and 6.3% of revenues in the first nine months of 2006 and the first nine months of 2005, respectively. Of the $8.7 million increase in selling and marketing expenses approximately $3.3 million is attributable to an increase in employee performance bonuses as a result of our achievement of certain financial goals, combined with increased headcount of selling and marketing personnel primarily in our Asia Pacific locations due to our increased revenue concentration in this region and increased stock compensation expense as a result of our adoption of SFAS No. 123R during the first quarter of 2006.

General and administrative expenses were $64.6 million in the first nine months of 2006 compared to $55.7 million in the first nine months of 2005, representing an increase of $8.9 million, or 15.9%. General and administrative expenses represented 5.7% and 6.1% of revenues in the first nine months of 2006 and the first nine months of 2005, respectively. The $8.9 million increase in general and administrative expenses is attributable to increased stock compensation expense as a result of our adoption of SFAS No. 123R during the first quarter of 2006, an increase in employee performance bonuses as a result of our achievement of certain financial goals and increased costs for external services, including legal and consulting services, partially offset by decreased costs of information technology outsourcing.

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

Restructuring, asset impairments and other, net were $3.3 million in the first nine months of 2006 compared to $4.1 million in the first nine months of 2005. During the first nine months of 2006, we recorded $4.7 million of asset impairments partially offset $1.4 million of net adjustments to reserves.

In June 2006, we recorded $4.7 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. Over the past three years we have capitalized software development costs associated with modifications and enhancements to several business process and related systems. The $4.7 million of asset impairments resulted from the fact that we currently have no plans to use certain internally developed software, and management considers the cease of use of these assets as other than temporarily idled. The decision to cease development of these assets in the second quarter of 2006 was triggered by a reallocation of corporate resources from these projects to other projects due to changes in corporate priorities, which include new objectives that arose from the purchase of the Gresham, Oregon wafer fabrication facility in May 2006. The amount of the asset impairment charge taken in June 2006, of $4.7 million, was determined based on the costs that had previously been capitalized related to the projects that have been abandoned.

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

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

During the first nine months of 2005, we recorded $4.7 million of employee separation charges and $0.5 million of exit costs, offset in part by $0.5 million of gain on sale of fixed assets and $0.6 million of net adjustments to reserves.

The $4.7 million of employee separation charges includes $2.2 million related to a worldwide work force reduction of approximately 60 employees, $1.3 million related to the transfer of certain design center functions from Grenoble, France to Toulouse, France, and $1.2 million of employee separation charges related to the termination of 80 employees in Malaysia resulting from the transfer of wafer fabrication manufacturing operations from Malaysia to Arizona.

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

The $0.6 million of net adjustments include $0.3 million of adjustments to the employee separation charges reserve related to the shutdown of our Grenoble, France design center that was announced in March 2005, $0.1 million of adjustments to the employee separation charges reserve related to the shutdown of our assembly and test operations in Roznov, Czech Republic that was announced in November 2003, the reversal of $0.1 million reserve for cash exit costs related to the December 2003 restructuring activity that are no longer expected to be incurred, and the reversal of a $0.1 million reserve for cash exit costs related to the June 2002 restructuring activity that are no longer expected to be incurred.

For more information on our restructuring activity see Note 6 “Restructuring, Asset Impairments and Other, Net” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Operating Income

Information about operating income form our reportable segments for the nine months ended September 29, 2006 and September 30, 2005 are as follows, in millions:

	Automotive & Power Supply	Computing Products	Digital & Consumer Products	Standard Products	Manufacturing Services	Total
Nine months ended September 29, 2006:						
Segment operating income	$ 69.9	$ 45.6	$ 19.4	$ 109.0	$ 13.6	$257.5
Nine months ended September 30, 2005:						
Segment operating income	$ 42.5	$ 22.3	$ 16.7	$ 75.8	$ 1.5	$158.8

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

	Nine months ended	
	September 29, 2006	September 30, 2005
Operating income for reportable segments	$ 257.5	$ 158.8
Unallocated amounts:		
Restructuring, asset impairments and other, net	(3.3)	(4.1)
Other unallocated manufacturing costs	(27.7)	(38.0)
Other unallocated operating expenses	(4.7)	(5.9)
Operating Income	$ 221.8	$ 110.8

Interest Expense

Interest expense was $39.9 million for the first nine months of 2006 compared to $46.1 million first nine months of 2005. The decrease in interest expense was primarily a result of interest savings during the first quarter of 2006 that resulted from the repayment of the 10% junior subordinated note that occurred during the second half of 2005, which was partially financed with proceeds from the issuance of 1.875% convertible senior subordinated notes due 2025. Our average month-end long-term debt balance (including current maturities) in the first nine months of 2006 was $1,056.1 million with a weighted average interest rate of 5.0% compared to $1,145.2 million and a weighted average interest rate of 5.4% in the first nine months of 2005. See also "Liquidity and Capital Resources—Key Financing Events" for a description of our refinancing activities.

Provision for Income Taxes

Provision for income taxes was $3.8 million in the first nine months of 2006 compared to $6.3 million in the first nine months of 2005. The provision for the first nine months of 2006 included $6.9 million for income and withholding taxes of certain of our foreign operations, partially offset by a $2.6 million receipt of previously accrued income tax receivable that was fully reserved and the reversal of $3.1 million of previously accrued income taxes for anticipated income tax audit risks. The provision for the first nine months of 2005 related to income and withholding taxes of certain of our foreign operations. Due to our continuing domestic tax losses and tax rate differentials in our foreign subsidiaries, our effective tax rate is lower than the U.S. statutory federal income tax rate. We continue to maintain a full valuation allowance on all of our domestic deferred tax assets.

Liquidity and Capital Resources

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

Cash Requirements

Commercial Commitments, Contractual Obligations and Indemnities

Our principal outstanding contractual obligations relate to our long-term debt, operating leases, pension obligations and purchase obligations. The following table summarizes our contractual obligations at September 29, 2006 and the effect such obligations are expected to have on our liquidity and cash flow in the future (in millions):

	Amount of Commitment by Expiration Period						
Commercial commitments	**Total**	**Remainder of 2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**
Standby letter of credit	$ 14.8	$ 8.2	$ 3.2	$ 0.0	$ 2.0	$ 0.0	$ 1.4

	Payments Due by Period						
Contractual obligations	**Total**	**Remainder of 2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**
Long-term debt	$1,006.7	$ 13.5	$25.3	$18.5	$ 586.1	$ 264.2	$ 99.1
Operating leases [1] [2]	13.6	2.3	4.3	2.6	1.9	0.7	1.8
Other long-term obligations—pension plans	12.6	3.2	3.0	3.0	3.0	0.4	—
Purchase obligations [1]:							
Capital purchase obligations	32.1	15.8	16.1	0.1	0.1	—	—
Foundry and inventory purchase obligations	58.3	45.3	3.2	3.1	2.9	1.2	2.6
Mainframe support	5.3	1.1	2.7	0.8	0.7	—	—
Information technology and communication services	18.5	3.1	7.3	6.3	2.0	—	—
Other	4.9	2.1	2.3	0.4	0.1	—	—
Total contractual obligations	$1,152.0	$ 86.4	$64.2	$34.8	$ 596.8	$ 266.5	$ 103.5

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

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

Our long-term debt includes $574.1 million outstanding under senior bank facilities amortizing through 2009 and potentially until 2011 under certain conditions, approximately $260.0 million of zero coupon convertible senior subordinated notes due 2024, $95.0 million of 1.875% convertible senior subordinated notes due 2025, $12.6 million outstanding under a note payable to a Japanese bank amortizing through 2010, $55.8 million outstanding under loan facilities with two Chinese banks due 2006 through 2013, and $9.2 million of capital lease obligations. See Note 8 “Long-Term Debt” of the notes to our unaudited consolidated financial statements included elsewhere in this report.

In connection with the acquisition of LSI’s Gresham, Oregon fabrication facility, we entered into a wafer supply and test service agreement with LSI pursuant to which (1) we will manufacture and provide semiconductor wafer products to LSI, and (2) we will provide certain sort test, processing engineering, quality assurance and other similar and related services that LSI may request. LSI is obligated to purchase

$198.8 million of wafer products and related services (such as wafer testing and sorting services) from us during the first two years under the agreement, dated May 15, 2006.

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

Our other long-term contractual obligations consist of estimated payments to fund liabilities that have been accrued in our consolidated balance sheet for our foreign pension plans. (See Note 7 “Balance Sheet Information” of the notes to our unaudited consolidated financial statements included elsewhere in this report).

Our balance of cash and cash equivalents was $233.4 million at September 29, 2006. We believe that our cash flows from operations, coupled with existing cash and cash equivalents will be adequate to fund our operating and capital needs over the next 12 months. Our senior bank facilities include a $25.0 million revolving facility. Letters of credit totaling $9.9 million were outstanding under the revolving facility at September 29, 2006. We amended our primary foreign exchange hedging agreement to provide for termination if at any time the amount available under our revolving credit facility is less than $2.5 million.

Contingencies

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

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

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

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

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

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

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

Sources and Uses of Cash

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

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

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

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

If we fail to generate sufficient cash from operations, we may need to raise additional equity or borrow additional funds to achieve our longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us. We believe that cash flow from operating activities coupled with existing cash and cash equivalents will be adequate to fund our operating and capital needs as well as enable us to maintain compliance with our various debt agreements through September 29, 2007. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

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Operations

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

EBITDA

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a key indicator that management uses to evaluate our operating performance and cash flows. While EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as an indicator of operating performance or an alternative to cash flow as a measure of liquidity, we believe this measure is useful to investors to assess our ability to meet our future debt service, capital expenditure and working capital requirements. This calculation may differ in method of calculation from similarly titled measures used by other companies. The following table sets forth our EBITDA for the three months ended September 29, 2006, June 30, 2006, and September 30, 2005, and the nine months ended September 29, 2006 and September 30, 2005, with a reconciliation to cash flows from operations, the most directly comparable financial measure under generally accepted accounting principles (in millions):

	Quarter Ended			Nine Months Ended	
	September 29 2006	June 30 2006	September 30 2005	September 29 2006	September 30 2005
Net income	$ 76.8	$ 67.5	$ 23.5	$ 184.7	$ 56.8
Plus:					
Depreciation and amortization	19.3	17.2	25.0	60.0	74.9
Interest expense	13.8	13.1	16.1	39.9	46.1
Interest income	(3.6)	(2.8)	(1.7)	(8.4)	(3.8)
Income tax provision	—	1.8	2.5	3.8	6.3
EBITDA	106.3	96.8	65.4	280.0	180.3
Increase (decrease):					
Interest expense	(13.8)	(13.1)	(16.1)	(39.9)	(46.1)
Interest income	3.6	2.8	1.7	8.4	3.8
Income tax provision	—	(1.8)	(2.5)	(3.8)	(6.3)
Loss (gain) on sale or disposal of fixed assets	0.5	(0.2)	0.1	0.3	0.1
Amortization of debt issuance costs	0.7	0.7	0.4	2.0	1.3
Provision for excess inventories	7.1	6.6	2.7	16.2	8.9
Non-cash impairment of property, plant, and equipment	—	4.7	—	4.7	—
Cumulative effect of accounting change	—	—	—	—	—
Non-cash interest on junior subordinated note payable	—	—	3.9	—	11.7
Deferred income taxes	0.4	(0.5)	2.0	0.3	(2.6)
Stock compensation expense	2.9	2.4	—	7.2	—
Other	0.2	0.8	1.4	—	3.3
Changes in operating assets and liabilities	(18.4)	(18.0)	(10.3)	(54.2)	(7.5)
Net cash provided by operating activities	$ 89.5	$ 81.2	$ 48.7	$ 221.2	$ 146.9

Covenants contained in our senior secured credit agreement require us to maintain a trailing 12-month minimum adjusted EBITDA of $140.0 million. Adjusted EBITDA, as defined under the documents for our senior bank facilities totaled approximately $403.3 million for the 12 months ended September 29, 2006. This adjusted EBITDA computation excludes certain restructuring and other charges and contains other differences from the EBITDA as defined above. Therefore, EBITDA in the above table is not representative of the adjusted EBITDA used to determine our debt covenant compliance.

If we were not in compliance with the covenants contained in our senior secured credit agreement, including the adjusted EBITDA maintenance covenant, the lenders under our senior secured credit agreement could cause all outstanding amounts to be due and payable immediately. If we were unable to repay, refinance or restructure that indebtedness, the lenders could proceed against the collateral securing that indebtedness. In addition, any such event of default or declaration of acceleration could also result in an event of default under one or more of our other debt instruments and have a material adverse effect on our financial condition, results of operations and liquidity.

Working Capital

Working capital fluctuates depending on end-market demand and our effective management of certain items such as receivables, inventory and payables. In times of escalating demand, our working capital requirements may increase as we purchase additional manufacturing inputs and increase production. Our working capital may also be affected by restructuring programs, which may require us to use cash for severance payments, asset transfers and contract termination costs. Our working capital, including cash, was $315.8 million at September 29, 2006, and has fluctuated between $211.9 million and $315.8 million over the last eight quarter-ends.

The components of our working capital at September 29, 2006 and December 31, 2005 are set forth below (in millions), followed by explanations for changes between December 31, 2005 and September 29, 2006 for cash and cash equivalents and any other changes greater than $5 million:

	September 29, 2006	December 31, 2005	Change
Current assets			
Cash and cash equivalents	$ 233.4	$ 233.3	$ 0.1
Short-term investments	35.8	—	35.8
Receivables, net	194.9	160.2	34.7
Inventories, net	205.8	169.5	36.3
Other current assets	41.5	29.9	11.6
Deferred income taxes	11.7	7.4	4.3
Total current assets	723.1	600.3	122.8
Current liabilities			
Accounts payable	134.6	137.3	(2.7)
Accrued expenses	101.6	83.9	17.7
Income taxes payable	6.4	5.5	0.9
Accrued interest	1.4	0.6	0.8
Deferred income on sales to distributors	128.6	97.1	31.5
Current portion of long-term debt	34.7	73.9	(39.2)
Total current liabilities	407.3	398.3	9.0
Net working capital	$ 315.8	$ 202.0	$ 113.8

The increase in short-term investments of $35.8 million in the third quarter of 2006 was attributable to the purchase of held-to-maturity investments with original maturities between three months and one year.

The increase of $34.7 million in accounts receivable is the result of increased sales in the last two months of the third quarter of 2006 as compared to the last two months of the fourth quarter in 2005.

The increase of $36.3 million in inventory is primarily attributable to inventory produced at our Gresham wafer fabrication facility and increased production ahead of expected demand increases. Based on the outlook for the fourth quarter of 2006, we anticipate declining inventory levels at the end of the fourth quarter of 2006.

The increase of $11.6 million in other current assets is primarily a result of an increase in prepaid expenses an increase in tool and die and increase in other tax receivables, partially offset by a decrease in value added tax receivables.

The increase in accrued expenses of $17.7 million was primarily attributable to increased accrued payroll, increased accrued vacation, and increased in sales related reserves, partially offset by decreases in accrued bonus and restructuring reserves.

The increase in deferred income is attributable to increased inventory levels at distributors and higher prices as compared to December 31, 2005 with inventories at distributors up from 9.8 weeks as of December 31, 2005 to 11.1 weeks as of September 29, 2006.

The decrease in the current portion of long-term debt relates to the timing of payments under our debt instruments including payments under the free cash flow provision of our senior bank facilities that were not required and were classified as long-term debt during 2006. See Note 8 “Long-Term Debt” of the notes to our unaudited consolidated financial statements included elsewhere in this report.

Long-Term Assets and Liabilities

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

Our manufacturing rationalization plans have included efforts to utilize our existing manufacturing assets and supply arrangements more efficiently. We believe that near-term access to additional manufacturing capacity, should it be required, could be readily obtained on reasonable terms through manufacturing agreements with third parties. Capital expenditures were $186.9 million during the first nine months of 2006 compared to $34.5 million during the first nine months of 2005. We will continue to look for opportunities to make similar strategic purchases in the future as we plan to invest a total of approximately $235 million, including capital lease obligations, in 2006 for additional capacity, which includes the purchase of LSI’s Gresham, Oregon wafer fabrication facility. Although our debt covenants contain certain restrictions that limit our amount of future capital expenditures, we do not believe that these restrictions will have a significant impact on our future operating performance.

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

Key Financing Events

Overview

Since we became an independent company as a result of our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. Our long-term debt includes significant amounts outstanding under our senior bank facilities, which contain an EBITDA (as defined for such facilities maintenance) covenant with which we were in compliance as of September 29, 2006.

During the second half of 2003, we began undertaking measures to reduce our long-term debt, reduce related interest costs and, in some cases, extend a portion of our debt maturities to continue to provide us additional operating flexibility. During 2006 we also issued shares of our common stock to partially finance the acquisition of the Gresham wafer fabrication facility. These measures continued into 2005 and 2006, as described below:

August 2006 Chinese Loan Refinancing

In August and September 2006, we refinanced our existing loans with two Chinese banks. Our long-term debt includes a $14.0 million loan facility with a Chinese bank, from tranches that were entered into from November 2000 through February 2001. Interest on this loan facility is payable quarterly and accrues at a variable rate based on published six month LIBOR rates in China, plus 1.2%, reset each half year. During the fourth quarter of 2003, the Company exercised its ability to extend the maturity of this loan facility for three years, resulting in scheduled principal payments $8.0 million due in the fourth quarter of 2006 and $6.0 million due in the first quarter of 2007.

Our long-term debt includes a $6.0 million loan facility due in 2009 with the same Chinese bank as the $14 million loan facility, entered into in August 2006. Interest on this loan is payable quarterly and accrues at a variable rate based on published three month LIBOR rates in China, plus 1.2%, and resets each quarter.

Our long-term debt also includes a $35.8 million loan facility with another Chinese bank. This loan facility is comprised of three tranches of $20.0 million, $5.0 million, and $10.8 million. The $20.0 million tranche was modified in August 2006 and is due in 2009 with $13.0 million amortizing over three years, payable quarterly beginning in the fourth quarter of 2006. The remaining $7.0 million is due in December 2009. Interest on this tranche is payable semiannually and accrues at a variable rate based on published six month LIBOR rates in China , plus 1.5%, and resets each half year. The $5.0 million tranche was executed in August 2006 and is due in 2009. Interest on this tranche is payable semiannually and accrues at a variable rate based on published six month LIBOR rates in China, plus 1.2%, and resets each half year. The $10.8 million tranche was executed in December 2003 with scheduled quarterly principal and interest payments through December 2013. Interest on this tranche payable semiannually and accrues at a variable rate based on published six month LIBOR rates in China, plus 1.5%, and resets each half year.

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

In July 2006, we completed an offer to exchange substantially all of our outstanding $260.0 million principal amount of zero coupon convertible senior subordinated notes due 2024 for a like principal amount of the new notes plus an exchange fee of $2.50 per $1,000 principal amount of old notes validly tendered and accepted for our calculation of exchange. The new notes contain a net share settlement feature, which reduces the amount of shares included in diluted net income per share beginning in the third quarter of 2006. The new notes are convertible into cash up to the par value, at a conversion rate of 101.8849 shares per $1,000 principle under certain circumstances. The excess of fair value over par value is payable in stock.

April 2006 Equity Offering

On April 6, 2006, we completed a public offering of our common stock registered pursuant to a shelf registration statement originally filed with the Securities and Exchange Commission on January 2, 2004. In connection with this offering, we issued approximately 11.2 million shares (which includes 0.7 million shares issued to cover over-allotments) at a price of $7.00 per share. The net proceeds from this offering received by us were $75.2 million after deducting the underwriting discount of $1.6 million ($0.14 per share) and offering expenses of $1.3 million (of which $1.1 million remained unpaid as of September 29, 2006). The net proceeds were primarily used to partially fund the purchase of LSI’s Gresham, Oregon wafer fabrication facility during the second quarter of 2006, which had a total purchase price of $105 million.

March 2006 Amendment to Senior Bank Facilities

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

February 2006 Amendment to Senior Bank Facilities

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

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

As part of the recapitalization, Semiconductor Components Industries, LLC ("SCI LLC"), our primary domestic operating subsidiary, issued a $91.0 million junior subordinated note due 2011. During periods it was outstanding, the note bore interest at an annual rate of 10.0%, compounded semi-annually and payable at maturity. The note was junior in right of payment to all senior debt. In November 2005, we repaid $66.4 million of the junior subordinated note with cash on hand, which reduced the outstanding principal amount to approximately $91.0 million.

In order to finance the repayment of the remaining principal amount of the junior subordinated note, in December 2005 we issued $95.0 million of 1.875% convertible senior subordinated notes due 2025. We received net proceeds of approximately $91.0 million from the sale of the notes after deducting commissions and estimated offering expenses of $4.0 million (of which $0.5 million remained unpaid as of September 29, 2006), which were capitalized as debt issuance costs and are being amortized using the effective interest method through the first put date of December 15, 2012. The notes bear interest at the rate of 1.875% per year from the date of issuance. Interest on the notes is payable on June 15 and December 15 of each year, beginning on June 15, 2006. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by certain of our existing and future subsidiaries.

The notes are convertible by holders into cash and shares of our common stock at a conversion rate of 142.8571 shares of common stock per $1,000 principal amount of notes (subject to adjustment in certain events), which is equivalent to an initial conversion price of approximately $7.00 per share of common stock. We will settle conversion of all notes validly tendered for conversion in cash and shares of our common stock, if applicable, subject to our right to pay the share amount in additional cash. Holders may convert their notes under the following circumstances: (i) during the five business-day period immediately following any five consecutive trading-day period in which the trading price per $1,000 principal amount of notes for each day of such period was less than 103% of the product of the closing sale price of our common stock and the conversion rate; (ii) upon occurrence of the specified transactions described in the indenture relating to the notes; or (iii) after June 15, 2012. As of September 29, 2006, none of these circumstances had occurred.

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

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

November 2005 Conversion of Redeemable Preferred Stock

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

Debt Instruments, Guarantees and Related Covenants

The following table presents the components of long-term debt as of September 29, 2006 and December 31, 2005 (dollars in millions):

	September 29, 2006 Balance	December 31, 2005 Balance
Senior Bank Facilities:		
Term Loan, interest payable quarterly at 7.6170% and 7.1875%, respectively	$ 574.1	$ 639.1
Revolver	—	—
	574.1	639.1
Zero Coupon Convertible Senior Subordinated Notes due 2024	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025	95.0	95.0
2.25% Note payable to Japanese bank due 2005 through 2010, interest payable semi-annually	12.6	15.4
Loan with a Chinese bank due 2006 through 2007, interest payable quarterly at 6.730% and 5.867%, respectively	14.0	14.0
Loan with a Chinese bank due 2009, interest payable quarterly at 6.57%	6.0	—
Loan with a Chinese bank due 2006 through 2013, interest payable semiannually at 7.03% and 6.167%, respectively	10.8	14.4
Loan with a Chinese bank due 2009, interest payable semiannually at 7.03 % and 6.167 %, respectively	20.0	20.0
Loan with a Chinese bank due 2009, interest payable semiannually at 6.56%	5.0	—
Capital lease obligations	9.2	9.1
	1,006.7	1,067.0
Less: Current maturities	(34.7)	(73.9)
	$ 972.0	$ 993.1

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

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

As of September 29, 2006, we were in compliance with the various covenants and other requirements contained in the credit agreement relating to our senior bank facilities and the indentures relating to our zero coupon convertible senior subordinated notes due 2024 and 1.875% convertible senior subordinated notes due 2025. We believe that we will be able to comply with the various covenants and other requirements contained in such credit agreement and the indentures through September 29, 2007.

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

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

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

In addition, our senior bank facilities require that we maintain or achieve a minimum consolidated adjusted EBITDA, as defined therein. Any future debt could contain financial and other covenants more restrictive than those that are currently applicable.

Cash Management

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

Accounting Changes and Changes in Accounting Estimates

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

Effective January 1, 2006, we adopted SFAS No. 123R, which requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. As a result of the adoption of SFAS No. 123R, our results of operations include $2.9 million and $7.2 million of stock compensation expense during the quarter and nine months ended September 29, 2006.

Total estimated share-based compensation expense, related to our employee stock options and employee stock purchase plan, recognized for the quarter and nine months ended September 29, 2006 was comprised as follows (in millions, except per share data):

	Quarter Ended September 29, 2006	Nine Months Ended September 29, 2006
Cost of revenues	$ 0.7	$ 1.7
Research and development	0.5	1.2
Selling and marketing	0.6	1.6
General and administrative	1.1	2.7
Share-based compensation expenses before income taxes	2.9	7.2
Related income tax benefits	—	—
Share-based compensation expense, net of taxes	$ 2.9	$ 7.2
Net share-based compensation expense, per common share:		
Basic	$ 0.01	$ 0.02
Diluted	$ 0.01	$ 0.02

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

We recorded $0.3 million and $2.7 million in share-based compensation expense during the quarter and nine months ended September 29, 2006, respectively related to share-based awards granted during the quarter and nine months ended September 29, 2006. This included expense related to the Employee Stock Purchase Plan of $0.3 million and $0.7 million during the quarter and nine months ended September 29, 2006, respectively, and $0.3 million of expense related to awards of restricted stock units in the nine months ending September 29, 2006. The remaining expense related to share-based awards granted prior to December 31, 2005.

Also, see "Results of Operations" elsewhere in this report and Note 3 "Significant Accounting Policies" and Note 10 "Employee Stock Benefit Plans" of the notes to our unaudited consolidated financial statements included elsewhere in this report.

During the quarter ended June 30, 2006, we commissioned a study of the manufacturing equipment at its other worldwide locations, which included an assessment of the estimated useful lives of those assets. The results of the study supported an estimated useful life of 10 years. We, factoring in the results of this study, have revised the estimated useful lives of our manufacturing equipment for depreciation purposes to 10 years as of the beginning of the second quarter of 2006 and on a prospective basis. The effect of this change was to decrease depreciation expense by $6.8 million and $14.3 million, increase net income by $6.8 million and $14.3 million and increase both basic net income per share by $0.02 for the quarter ended September 29, 2006 and diluted net income per share by $0.4 for the nine months ended September 29, 2006.

Critical Accounting Policies and Estimates

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

Revenue. We generate revenue from sales of our semiconductor products to original equipment manufacturers, electronic manufacturing service providers and distributors. We also generate revenue, although to a much lesser extent, from manufacturing services provided to customers. We recognize revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the customer net of provisions for related sales returns and allowances. Title to products sold to distributors typically passes at the time of shipment by us so we record accounts receivable for the amount of the transaction, reduce our inventory for the products shipped and defer the related margin in our consolidated balance sheet. We recognize the related revenue and cost of revenues when the distributor informs us that they have resold the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

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

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

Inventories. We carry our inventories at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market and record provisions for slow moving inventories based upon a regular analysis of inventory on hand compared to historical and projected end user demand. Projected end user demand is generally based on sales during the prior 12 months. These provisions can influence our results from operations. For example, when demand falls for a given part, all or a portion of the related inventory is reserved, impacting our cost of revenues and gross profit. If demand recovers and the parts previously reserved are sold, we will generally recognize a higher than normal margin. However, the majority of product inventory that has been previously reserved is ultimately discarded. Although we do sell some products that have previously been written down, such sales have historically been relatively consistent on a quarterly basis and the related impact on our margins has not been material.

Deferred Tax Valuation Allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In determining the amount of the valuation allowance, we consider estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction in which we operate. If we determine that we will not realize all or a portion of our remaining deferred tax assets, we will increase our valuation allowance with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. In the fourth quarter of 2001, a valuation allowance was established for our domestic deferred tax assets and a portion of our foreign deferred tax assets. Additionally, throughout 2003, 2004 and 2005 and continuing into 2006, no incremental domestic deferred tax benefits were recognized. Our ability to utilize our deferred tax assets and the continuing need for a related valuation allowance are monitored on an ongoing basis.

Impairment of Long-Lived Assets. We evaluate the recoverability of the carrying amount of our property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Impairment is assessed when the undiscounted expected cash flows derived for an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in operating results. We continually apply our best judgment when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an impaired asset. The dynamic economic environment in which we operate and the resulting assumptions used to estimate future cash flows impact the outcome of our impairment tests. In recent years, most of our assets that have been impaired consist of assets that were ultimately abandoned, sold or otherwise disposed of due to cost reduction activities and the consolidation of our manufacturing facilities. In some instances, these assets have subsequently been sold for amounts higher than their impaired value. When material, these gains are recorded in the restructuring, asset impairment and other, net line item in our consolidated statement of operations and disclosed in the footnotes to the financial statements.

Goodwill. We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred in accordance with the provisions of Statement of Financial Accounting Standards No. 142 “Goodwill and Other Intangible Assets” (“SFAS No. 142”), which requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing our goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit’s goodwill is not considered to be impaired and the second step is unnecessary. To date, our goodwill has not been considered to be impaired based on the results of this first step.

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

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

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

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

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

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

The fair value of each option grant in 2005 and thereafter is estimated on the date of grant using a lattice based option valuation model. In past years, we used the Black-Scholes option-pricing model to calculate the fair value of its options. The lattice model uses: 1) a constant volatility; 2) an employee exercise behavior model (based on an analysis of historical exercise behavior); and 3) the treasury yield curve to calculate the fair value of each option grant.

At September 29, 2006, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was $18.9 million, which is expected to be recognized over a weighted average period of 1.6 years.

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

In September of 2006, the FASB issued SFAS No. 157 “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 establishes a framework for measuring fair value under generally accepted accounting procedures and expands disclosures on fair value measurements. This statement applies under previously established valuation pronouncements and does not require the changing of any fair value measurements, though it may cause some valuation procedures to change. Under SFAS No. 157, fair value is established by the price that would be received to sell the item or the amount to be paid to transfer the liability of the asset as opposed to the price to be paid for the asset or received to transfer the liability. Further, it defines fair value as a market specific valuation as opposed to an entity specific valuation, though the statement does recognize that there may be instances when the low amount of market activity for a particular item or liability may challenge an entity’s ability to establish a market amount. In the instances that the item is restricted, this pronouncement states that the owner of the asset or liability should take into consideration what affects the restriction would have if viewed from the perspective of the buyer or assumer of the liability. This statement effective for all assets valued in financial statements for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS No. 157 to our financial position and result of operations.

In September of 2006, the FASB issued SFAS No. 158 “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans” (“SFAS No. 158”). SFAS No. 158 requires companies to recognize the funded status of a benefit plan (difference between plan assets at fair value and the benefit obligation) in the statement of financial position as well as to list in other comprehensive income, net of tax, the gains and losses and prior service costs or credit that were accrued during the financial period but were not recognized as part of the net periodic benefit cost under SFAS No. 87 “Employer’s Accounting for Pension” or SFAS No. 106 “Employer’s Accounting for Postretirement Benefits Other Than Pensions”. It also requires all benefit plans (postretirement or otherwise) to be valued at the end of each fiscal year. Companies must disclose in the notes to financial statements any delayed gain or loss related to net periodic benefit cost. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. We are currently evaluating the impact of SFAS No. 158 to our financial position and results of operations.

In September of 2006, the Securities and Exchange Commission released Staff Accounting Bulletin No. 108 “Considering the effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 suggests that a registrant’s materiality evaluation of an identified unadjusted error should quantify the effects of the identified unadjusted error on each financial statement and related financial statement disclosure. SAB 108 was issued on September 13, 2006. Our adoption of SAB No. 108 is not expected to impact our financial position of results our operations.

Trends, Risks and Uncertainties

This Quarterly Report on Form 10-Q includes “forward-looking statements,” as that term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q are forward-looking statements, particularly statements about our plans, strategies and prospects under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Forward-looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “will,” “intends,” “plans,” or “anticipates,” or by discussions of strategy, plans or intentions. In this

Form 10-Q, forward-looking information relates to fourth quarter 2006 revenues, gross margins and average selling prices, research and development expenses as a percentage of revenues, and sales and marketing and general and administrative expenses as a percentage of revenues, net interest expense, capital expenditures, and similar matters. All forward-looking statements in this Form 10-Q are made based on our current expectations and estimates, which involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in forward-looking statements. Among these factors are our revenues and operating performance, changes in overall economic conditions, the cyclical nature of the semiconductor industry, changes in demand for our products, changes in inventories at our customers and distributors, technological and product development risks, availability of raw materials, competitors' actions, pricing and gross profit pressures, loss of key customers, order cancellations or reduced bookings, changes in manufacturing yields, control of costs and expenses, significant litigation, risks associated with acquisitions and dispositions, risks associated with our substantial leverage and restrictive covenants in our debt agreements, risks associated with our international operations, the threat or occurrence of international armed conflict and terrorist activities both in the United States and internationally, risks and costs associated with increased and new regulation of corporate governance and disclosure standards (including pursuant to Section 404 of the Sarbanes-Oxley Act of 2002), and risks involving environmental or other governmental regulation. Additional factors that could affect our future results or events are described from time to time in our Securities and Exchange Commission reports. See in particular our Form 10-K for the fiscal year ended December 31, 2005 under Item 1A. "Risk Factors" and similar disclosures in subsequently filed reports with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

At September 29, 2006, our long-term debt (including current maturities) totaled $1,006.7 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $382.8 million. We do have interest rate exposure with respect to the $623.9 million outstanding balance on our variable interest rate debt; however, we have entered into interest rate swaps to reduce this exposure. As of September 29, 2006, we had interest rate swaps covering $237.5 million of our variable interest rate debt. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next twelve months by approximately $1.9 million. However, some of this impact would be offset by additional interest earned on our cash and cash equivalents as a result of the higher rates.

On January 9, 2003, we amended our primary foreign exchange hedging agreement to provide for termination if at any time the amount available under our revolving credit facility becomes less than $2.5 million.

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

Item 4. Controls and Procedures

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

Change in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended September 29, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

We are currently involved in a variety of legal matters that arise in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters, including the matter described in the next paragraphs, will have a material adverse effect on our financial condition, results of operations or cash flows. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

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

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

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

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

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

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

Item 1A. Risk Factors

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

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

On June 20, 2006, we commenced an offer to exchange up to $260.0 million principal amount of new notes ("New Notes") with, among other things, a "net share settlement" mechanism, a cash acquisition make-whole feature and modified contingent conversion events for our then outstanding $260.0 million zero coupons senior subordinated notes due 2024 ("Old Notes"). Holders who exchanged their Old Notes received the New Notes plus an exchange fee of $2.50 per $1,000 principal amount of their Old Notes. The exchange offer expired at 5 p.m., New York City time, on July 19, 2006, and as of that time, a total of $259,508,000 principal amount of old notes, or 99.8 percent of the outstanding aggregate principal of Old Notes had been tendered. All Old Notes that were properly tendered and not withdrawn were accepted and exchanged for the New Notes. The offer to exchange was exempt from registration pursuant to Section 3(a)(9) of the Securities Act of 1933. On August 9, 2006, we entered into transactions with four of the remaining holders of Old Notes and exchanged $443,000 aggregate principal amount of Old Notes that were not tendered in the exchange. These holders exchanged their Old Notes for New Notes on the same terms as the exchange offer discussed above. We intend to repurchase or redeem all of the Old Notes that remain outstanding, subject to market conditions.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Pre-Approval of Non-Audit Services of PricewaterhouseCoopers LLP

During the period for which this Form 10-Q is filed through the date of its filing, the Audit Committee of our Board of Directors ("Committee") pre-approved certain non-audit services to be provided by our independent registered public accounting firm, PricewaterhouseCoopers LLP. During a meeting held on August 9, 2006, the Committee pre-approved tax related services. During a meeting held on October 26, 2006, the Committee pre-approved certain other non-audit services.

Item 6. Exhibits

Exhibit No.	Description
Exhibit 10.1	Amendment and Waiver dated as of September 27, 2006, to the Amended and Restated Credit Agreement dated as of August 4, 1999, as amended and restated as of February 6, 2006 (as amended, supplemented or otherwise modified from time to time), among ON Semiconductor Corporation, Semiconductor Industries, LLC, the specified lenders, and JPMorgan Chase Bank, N.A. (as administrative agent).
Exhibit 31.1	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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: October 27, 2006

ON SEMICONDUCTOR CORPORATION

By: /s/ DONALD COLVIN

Donald Colvin
Executive Vice President and Chief Financial Officer

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

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Exhibit 10.1

AMENDMENT AND WAIVER (this "Amendment") dated as of September 27, 2006, to the Amended and Restated Credit Agreement dated as of August 4, 1999, as amended and restated as of February 6, 2006 (as amended, supplemented or otherwise modified from time to time prior to the date hereof, the "Credit Agreement"), among ON SEMICONDUCTOR CORPORATION ("Holdings"), SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC (the "Borrower"), the LENDERS party thereto, and JPMORGAN CHASE BANK, N.A., as administrative agent.

A. Pursuant to the Credit Agreement, the Lenders have extended credit to the Borrower, and have agreed to extend credit to the Borrower, in each case pursuant to the terms and subject to the conditions set forth therein.

B. Holdings and the Borrower have requested that the Lenders agree to amend certain provisions of the Credit Agreement as set forth below.

C. The undersigned Lenders are willing so to amend the Credit Agreement pursuant to the terms and subject to the conditions set forth herein.

D. Capitalized terms used but not defined herein have the meanings assigned to them in the Credit Agreement, as amended hereby.

Accordingly, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, and subject to the conditions set forth herein, the parties hereto hereby agree as follows:

SECTION 1. Amendments of Section 1.01. Section 1.01 of the Credit Agreement is hereby amended as follows:

(a) the definition of the term "Prepayment Event" is amended by adding, following the words "sale and leaseback transaction permitted by" appearing therein, the words "clause (a) or (b) of".

(b) the definition of the term "Capital Expenditures" is amended by deleting such term in its entirety and substituting in lieu thereof the following:

"Capital Expenditures" means, for any period, without duplication, (a) the additions to property, plant and equipment and other capital expenditures of the Borrower and its consolidated Subsidiaries that are (or would be) set forth in a consolidated statement of cash flows of the Borrower for such period prepared in accordance with GAAP and (b) Capital Lease Obligations (except for Capital Lease Obligations, if any, permitted by Section 6.06) incurred by the Borrower and its consolidated Subsidiaries during such period, provided that the term

"Capital Expenditures" (i) shall be net of landlord construction allowances, (ii) shall not include expenditures made in connection with the repair or restoration of assets with insurance or condemnation proceeds, (iii) shall not include the purchase price of equipment to the extent consideration therefor consists of used or surplus equipment being traded in at such time or the proceeds of a concurrent sale of such used or surplus equipment, in each case in the ordinary course of business and (iv) shall only include the portion of the expenditures of the China JV representing the Borrower's proportionate equity interest in the China JV.

SECTION 2. Amendments of Section 2.11. Paragraph (d) of Section 2.11 of the Credit Agreement is amended by deleting such paragraph in its entirety and substituting in lieu thereof the following:

(d) Following the end of each fiscal year of the Borrower, the Borrower shall prepay Term Borrowings in an aggregate amount equal to 50% of Excess Cash Flow for such fiscal year; provided that any prepayment required by this paragraph shall be reduced, but not below zero, by the amount of any optional prepayment of the Term Borrowings pursuant to Section 2.11(a) during such fiscal year. Each prepayment pursuant to this paragraph shall be made within five Business Days after the date on which financial statements are delivered pursuant to Section 5.01 with respect to the fiscal year for which Excess Cash Flow is being calculated (and in any event within five Business Days after the date that is 90 days after the end of such fiscal year). Notwithstanding the foregoing, any Term Lender may elect, by notice to the Administrative Agent by telephone (confirmed by telecopy) at least one Business Day prior to the prepayment date, to decline all or any portion of any prepayment of its Term Loans pursuant to this paragraph (d).

SECTION 3. Amendments of Section 6.01. Section 6.01 of the Credit Agreement is amended by (a) deleting the word "and" appearing at the end of clause (a)(xi) thereof, (b) deleting the period at the end of clause (a)(xii) thereof and substituting in lieu thereof the following: "; and" and (c) adding at the end of paragraph (a) thereof the following:

(xiii) Capital Lease Obligations of the Borrower or any Subsidiary incurred in connection with any sale and leaseback transaction permitted by Section 6.06.

SECTION 4. Amendments of Section 6.02. Section 6.02 of the Credit Agreement is amended by deleting clause (a)(vi) thereof and substituting in lieu thereof the following:

(vi) Liens on assets that are the subject of a capital lease of the Borrower or any Subsidiary securing Capital Lease Obligations permitted under clause (xiii) of Section 6.01(a) in respect of such capital lease;

SECTION 5. Amendments of Section 6.04. Section 6.04 of the Credit Agreement is amended by deleting clause (a) thereof and substituting in lieu thereof the following:

> (a) investments by any Loan Party in Equity Interests in any of its Subsidiaries that is not a Loan Party in an aggregate amount not to exceed $3,000,000 in any fiscal year or $10,000,000 in the aggregate;

SECTION 6. Amendments of Section 6.06. Section 6.06 of the Credit Agreement is amended by (a) deleting the word "and" appearing at the end of clause (a) thereof and substituting in lieu thereof a comma and (b) adding before the period at the end thereof the following:

> (c) any such sales and leasebacks of equipment made in the twelve-month period commencing September 27, 2006 and ending September 26, 2007 with an aggregate fair value not to exceed $90,000,000, (d) any such sales and leasebacks of equipment ("Replacement Equipment") to replace damaged equipment previously sold and leased back pursuant to clause (c); provided that such Replacement Equipment shall have been purchased with insurance proceeds for such damaged equipment and (e) any such sales and leasebacks of Replacement Equipment to replace equipment previously sold and leased back pursuant to clause (c) and subsequently moved out of the United States with an aggregate fair value not to exceed $15,000,000

SECTION 7. Amendments of Section 6.08. Section 6.08 of the Credit Agreement is amended by (a) deleting the word "and" appearing at the end of clause (b)(viii) thereof, (b) deleting the period at the end of clause (b)(ix) thereof and substituting in lieu thereof the following: "; and" and (c) adding at the end of paragraph (b) thereof the following:

> (x) payments of up to $100,000 in respect of the purchase, redemption or retirement of any Permitted Convertible Debt.

SECTION 8. Amendments of Section 6.14. Section 6.14 of the Credit Agreement is amended by deleting the amount "$40,000,000" set forth in clause (d) thereof and substituting in lieu thereof the amount "$50,000,000".

SECTION 9. Amendments of Schedule 6.02. Schedule 6.02 of the Credit Agreement is amended by deleting such Schedule in its entirety and substituting in lieu thereof Schedule 6.02 attached as Exhibit A hereto.

SECTION 10. Representations and Warranties. Each of Holdings and the Borrower represents and warrants to the Administrative Agent and to each of the Lenders that:

> (a) This Amendment has been duly authorized, executed and delivered by each of Holdings and the Borrower and constitutes a legal, valid and binding obligation of Holdings and the Borrower, enforceable in accordance with its terms,

subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(b) After giving effect to this Amendment, each of the representations and warranties of Holdings and the Borrower set forth in the Loan Documents is true and correct on and as of the date hereof, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties are true and correct as of such earlier date.

(c) Immediately after giving effect to this Amendment, no Default shall have occurred and be continuing.

SECTION 11. Conditions to Effectiveness. This Amendment shall become effective on the date that the following conditions shall have occurred (which date shall not be later than September 27, 2006): (a) the Administrative Agent shall have received counterparts of this Amendment that, when taken together, bear the signatures of Holdings, the Borrower and the Required Lenders, and (b) all fees and other amounts due and payable in connection with this Amendment or the Credit Agreement, including the fee described in Section 12 and, to the extent invoiced in writing to the Borrower at least two Business Days prior to such date, reimbursement or payment of all reasonable, documented, out-of-pocket expenses (including fees, charges and disbursements of counsel or other advisors) required to be paid or reimbursed by any Loan Party, shall have been paid or reimbursed, as applicable.

SECTION 12. Amendment Fee. In consideration of the agreements of the Lenders contained in this Amendment, the Borrower agrees to pay to the Administrative Agent, for the account of each Lender that delivers an executed counterpart of this Amendment at or prior to 5:00 p.m., New York time, on September 27, 2006, an amendment fee in an amount equal to 0.05% of the sum of such Lender's Revolving Commitment and outstanding Term Loans; provided that such fee shall not be payable unless and until all conditions to the effectiveness of this Amendment as provided in Section 11 (other than payment of such amendment fee) shall have been satisfied.

SECTION 13. Waiver of Notice. The Administrative Agent and the undersigned Lenders hereby waive the notice requirements of Section 2.11(e) and (f) of the Credit Agreement in respect of any voluntary prepayments of the Term Loans made by the Borrower prior to September 30, 2006.

SECTION 14. Credit Agreement. Except as specifically amended hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Credit Agreement shall mean the Credit Agreement as amended or modified hereby. This Amendment shall be a Loan Document for all purposes.

SECTION 15. <u>Applicable Law; Waiver of Jury Trial.</u> (A) THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

(B) EACH PARTY HERETO HEREBY AGREES AS SET FORTH IN SECTION 9.10 OF THE CREDIT AGREEMENT AS IF SUCH SECTION WERE SET FORTH IN FULL HEREIN.

SECTION 16. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one agreement. Delivery of an executed signature page to this Amendment by facsimile or other electronic transmission shall be effective as delivery of a manually signed counterpart of this Amendment.

SECTION 17. Expenses. The Borrower agrees to reimburse the Administrative Agent for its reasonable, documented, out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore LLP, counsel for the Administrative Agent.

SECTION 18. Headings. The Section headings used herein are for convenience of reference only, are not part of this Amendment and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

ON SEMICONDUCTOR CORPORATION,

By /s/ DONALD A. COLVIN
Name: Donald A. Colvin
Title: Executive Vice President and
Chief Financial Officer

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC,

By /s/ DONALD A. COLVIN
Name: Donald A. Colvin
Title: Executive Vice President and
Chief Financial Officer

JPMORGAN CHASE BANK, N.A.,
individually and as administrative agent,

By /s/ PETER M. LING
Name: Peter M. Ling
Title: Managing Director

SIGNATURE PAGE TO AMENDMENT AND WAIVER DATED AS OF SEPTEMBER 27, 2006, TO THE CREDIT AGREEMENT DATED AS OF AUGUST 4, 1999, AS AMENDED AND RESTATED AS OF FEBRUARY 6, 2006, AMONG ON SEMICONDUCTOR CORPORATION, SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC, THE LENDERS PARTY THERETO, AND JPMORGAN CHASE BANK, N.A., AS ADMINISTRATIVE AGENT

Name of Institution: ______________________

By ______________________
Name:
Title:

[Multiple signature pages of the various lending institutions make up the remainder of the amendment and are not reproduced here.]

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Keith D. Jackson, certify that:

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

Date: October 27, 2006

/S/ KEITH D. JACKSON

Keith D. Jackson
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald Colvin, certify that:

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

Date: October 27, 2006

/s/ Donald Colvin
Donald Colvin
Chief Financial Officer

Exhibit 32.1

Certification

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

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

The Quarterly Report on Form 10-Q for the fiscal quarter ended September 29, 2006 ("Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 27, 2006

/S/ KEITH D. JACKSON
Keith D. Jackson
President and Chief Executive Officer

Dated: October 27, 2006

/S/ DONALD COLVIN
Donald Colvin
Executive Vice President and
Chief Financial Officer

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