SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2002

☐ 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<br>(State or other jurisdiction of<br>incorporation or organization) | 36-3840979<br>(I.R.S. Employer<br>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 ☐

The number of shares outstanding of each of the issuer’s classes of common stock as of the close of business on April 30, 2002:

| Class | Number of Shares |
|---|---|
| Common Stock; $.01 par value | 175,477,077 |

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## PART I: FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

## ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

| | March 29, 2002 | December 31, 2001 |
|---|---|---|
| | (unaudited) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 147.6 | $ 179.8 |
| Receivables, net (including $15.4 and $21.3 due from Motorola) | 152.7 | 142.3 |
| Inventories, net | 170.2 | 183.7 |
| Other current assets | 35.8 | 35.8 |
| Deferred income taxes | 10.3 | 9.2 |
| Total current assets | 516.6 | 550.8 |
| Property, plant and equipment, net | 528.6 | 555.5 |
| Deferred income taxes | — | 1.3 |
| Investments in and advances to joint ventures | 96.6 | 95.4 |
| Goodwill | 77.3 | 77.3 |
| Intangible assets, net | 35.7 | 38.6 |
| Other assets | 39.8 | 41.5 |
| Total assets | $ 1,294.6 | $ 1,360.4 |
| **LIABILITIES, MINORITY INTERESTS, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT** | | |
| Accounts payable (including $0.6 and $3.3 payable to Motorola) | $ 111.9 | $ 111.5 |
| Accrued expenses (including $11.7 and $11.7 payable to Motorola) | 94.0 | 90.2 |
| Income taxes payable | 9.8 | 8.0 |
| Accrued interest | 5.1 | 13.4 |
| Deferred income on sales distributors | 78.1 | 99.4 |
| Current portion of long-term debt | 12.6 | 12.4 |
| Total current liabilities | 311.5 | 334.9 |
| Long-term debt (including $117.9 and $115.2 payable to Motorola) | 1,372.8 | 1,374.5 |
| Other long-term liabilities | 68.0 | 62.7 |
| Deferred income taxes | 0.3 | — |
| Total liabilities | 1,752.6 | 1,772.1 |
| Commitments and contingencies (see Note 9) | — | — |
| Minority interests in consolidated subsidiaries | 3.9 | 4.1 |
| Series A Cumulative Convertible Redeemable Preferred Stock ($0.01 par value, 100,000 shares authorized, 10,000 shares issued and outstanding; 8% annual dividend rate; liquidation value — $100.0 plus $4.5 and $2.4 of accrued dividends) | 103.7 | 101.6 |
| Common stock ($0.01 par value, 300,000,000 shares authorized, 175,342,972 and 174,653,586 shares issued and outstanding) | 1.8 | 1.7 |
| Additional paid-in capital | 738.1 | 738.8 |
| Accumulated other comprehensive loss | (30.4) | (32.8) |
| Accumulated deficit | (1,275.1) | (1,225.1) |
| Total stockholders' deficit | (565.6) | (517.4) |
| Total liabilities, minority interests, redeemable preferred stock and stockholders' deficit | $ 1,294.6 | $ 1,360.4 |

*See accompanying notes to consolidated financial statements.*

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**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

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

| | Quarter Ended | |
|---|---|---|
| | March 29, 2002 | March 30, 2001 |
| | (unaudited) | (unaudited) |
| Revenues: | | |
| Net product revenues (including $17.8 and $21.1 from Motorola) | $268.7 | $ 357.0 |
| Foundry revenues from Motorola | 0.4 | 3.5 |
| Total revenues | 269.1 | 360.5 |
| Cost of sales | 210.9 | 273.9 |
| Gross profit | 58.2 | 86.6 |
| Operating expenses: | | |
| Research and development | 17.3 | 22.9 |
| Selling and marketing | 14.6 | 23.8 |
| General and administrative | 29.2 | 36.8 |
| Amortization of goodwill and other intangibles | 3.0 | 5.8 |
| Restructuring and other charges | 7.1 | 38.0 |
| Total operating expenses | 71.2 | 127.3 |
| Operating loss | (13.0) | (40.7) |
| Other income (expenses), net: | | |
| Interest expense | (34.7) | (29.2) |
| Equity in earnings of joint venture | 1.2 | 0.6 |
| Gain on sale of investment in joint venture | — | 3.1 |
| Other income (expenses), net | (33.5) | (25.5) |
| Loss before income taxes, minority interests and cumulative effect of accounting change | (46.5) | (66.2) |
| (Provision) benefit for income taxes | (3.7) | 22.7 |
| Minority interests | 0.2 | 0.5 |
| Net loss before cumulative effect of accounting change | (50.0) | (43.0) |
| Cumulative effect of accounting change (net of income taxes of $38.8) | — | (116.4) |
| Net loss | (50.0) | (159.4) |
| Less: Redeemable preferred stock dividends | (2.1) | — |
| Net loss applicable to common stock | $ (52.1) | $(159.4) |
| Comprehensive loss: | | |
| Net loss | $ (50.0) | $(159.4) |
| Foreign currency translation adjustments | (0.8) | (2.5) |
| Minimum pension liability adjustment | — | (0.4) |
| Cash flow hedges: | | |
| Cumulative effect of accounting change | — | (3.4) |
| Net gains (losses) on derivative instruments | 1.8 | (3.1) |
| Reclassification adjustments | 0.1 | 0.1 |
| Release of valuation allowance for related deferred tax assets | 1.3 | — |
| Comprehensive loss | $ (47.6) | $(168.7) |

*See accompanying notes to consolidated financial statements.*

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**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(in millions, except per share data)**

| | Quarter ended | |
|---|---|---|
| | March 29, 2002 | March 30, 2001 |
| | (unaudited) | (unaudited) |
| Loss earnings per common share: | | |
| Basic: | | |
| Before cumulative effect of accounting change | ($0.30) | ($0.25) |
| Cumulative effect of accounting change | — | (0.67) |
| Net loss | ($0.30) | ($0.92) |
| Diluted: | | |
| Before cumulative effect of accounting change | ($0.30) | ($0.25) |
| Cumulative effect of accounting change | — | (0.67) |
| Net loss | ($0.30) | ($0.92) |
| Weighted average common shares outstanding: | | |
| Basic | 174.8 | 172.8 |
| Diluted | 174.8 | 172.8 |

*See accompanying notes to consolidated financial statements.*

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in millions)**

| | Quarter Ended | |
|---|---|---|
| | March, 29 2002 | March 30, 2001 |
| | (unaudited) | (unaudited) |
| Cash flows from operating activities: | | |
| Net loss | $ (50.0) | $(159.4) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 34.0 | 42.5 |
| Cumulative effect of accounting change | — | 116.4 |
| Amortization of debt issuance costs | 1.6 | 1.3 |
| Provision for doubtful accounts | — | (0.2) |
| Provision for inventory reserves | 10.7 | 9.4 |
| Net (gain) loss on disposals of property, plant and equipment | (0.1) | 3.1 |
| Non-cash interest on junior subordinated note payable to Motorola | 2.7 | 2.6 |
| Non-cash supplemental interest on senior bank facilities | 7.4 | — |
| Minority interests in losses of consolidated subsidiaries | (0.2) | (0.5) |
| Undistributed earnings of unconsolidated joint ventures | (1.2) | (0.6) |
| Tax benefit of stock option exercises | — | 0.1 |
| Gain on sale of investment in joint venture | — | (3.1) |
| Deferred income taxes | 0.7 | (22.8) |
| Stock compensation expense | 0.3 | 2.2 |
| Changes in assets and liabilities: | | |
| Receivables | (10.2) | 81.6 |
| Inventories | 2.9 | (28.0) |
| Other current assets | (1.2) | (15.6) |
| Accounts payable | 0.6 | (29.3) |
| Accrued expenses | 4.3 | (38.8) |
| Income taxes payable | 1.8 | (7.9) |
| Accrued interest | (8.3) | (6.7) |
| Deferred income on sales to distributors | (21.3) | (27.2) |
| Other long-term liabilities | 1.1 | 0.4 |
| Net cash used in operating activities | (24.4) | (80.5) |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (5.6) | (51.9) |
| Investments in joint venture | — | (0.5) |
| Acquisition of minority interests in consolidated subsidiaries | — | (0.1) |
| Loans to unconsolidated joint venture | — | (5.0) |
| Proceeds from sale of investment in joint venture | — | 20.4 |
| Proceeds from sales of property, plant and equipment | 0.2 | 0.3 |
| Net cash used in investing activities | (5.4) | (36.8) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock under the employee stock purchase plan | 0.4 | 2.3 |
| Proceeds from exercise of stock options | 0.8 | 0.1 |
| Payment of capital lease obligation | (0.7) | — |
| Repayment of senior credit facilities | (2.8) | — |
| Net cash (used in) provided by financing activities | (2.3) | 2.4 |
| Effect of exchange rate changes on cash and cash equivalents | (0.1) | 0.7 |
| Net decrease in cash and cash equivalents | (32.2) | (114.2) |
| Cash and cash equivalents, beginning of period | 179.8 | 188.9 |
| Cash and cash equivalents, end of period | $147.6 | $ 74.7 |

*See accompanying notes to consolidated financial statements.*

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

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

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

The accompanying consolidated financial statements as of and for the quarter ended March 29, 2002 include the accounts of ON Semiconductor Corporation, its wholly-owned subsidiaries, and the majority-owned subsidiaries that it controls (collectively, the “Company”). An investment in a majority-owned joint venture that the Company does not control is accounted for on the equity method. Investments in companies that represent less than 20% of the related voting stock are accounted for on the cost basis. All material intercompany accounts and transactions have been eliminated.

The accompanying unaudited financial information reflects all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of December 31, 2001 and for the year then ended included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 29, 2002.

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

**Note 2: Liquidity**

During the quarter ended March 29, 2002, the Company incurred a net loss of $50.0 million compared with a net loss of $159.4 million for the same period of 2001. (The net loss for the quarter ended March 29, 2002 included $7.1 million for costs associated with the Company’s restructuring efforts. The net loss for the quarter ended March 30, 2001 included a charge of $116.4 million (net of income taxes of $38.8 million) to record the cumulative effect of an accounting change for recognizing revenue on sales to distributors and $38.0 million for restructuring and other costs.) Additionally, the Company’s operating activities utilized $24.4 million of cash for the quarter ended March 29, 2002 compared with cash utilized by operating activities of $80.5 million for the quarter ended March 30, 2001.

At March 29, 2002, the Company had $147.6 million in cash and cash equivalents, net working capital of $205.1 million, long-term debt of $1,385.4 million and a stockholder’s deficit of $565.6 million. The Company’s long-term debt includes $985.9 million under its senior bank facilities, $260.0 million of its senior subordinated notes due 2009, $117.9 million under its junior subordinated note payable to Motorola, $21.2 million under a note payable to a Japanese bank and a capital lease obligation totaling $0.4 million. (See Note 12 “Subsequent Events”)

On September 7, 2001, the Company issued 10,000 shares of its Series A Cumulative Convertible Redeemable Preferred Stock to an affiliate of Texas Pacific Group (TPG), the Company's primary stockholder, resulting in net proceeds to the Company of $99.2 million.

The Company’s ability to make payments on and to refinance its indebtedness, to remain in compliance with the various restrictions and covenants found in its credit agreements and to fund its working capital, capital expenditures and research and development efforts will depend on its ability to generate cash in the future, which is subject to, among other things, its future operating performance and to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may be beyond its control.

The Company’s primary cash needs, both in the short term and in the long term will focus on debt service, capital spending and working capital. The Company’s liquidity needs may also be supplemented with the proceeds from targeted sales of assets. As part of its business strategy, the Company reviews acquisition and divestiture opportunities and proposals on a regular basis. Although there can be no assurances, management believes that cash flow from operations coupled with existing cash and cash equivalent balances will be adequate to fund the Company’s operating and cash flow needs as well as enable it to maintain compliance with its various debt agreements through March 28, 2003. To the extent that actual results or events differ from the Company’s financial projections and business plans, its liquidity may be adversely affected.

**Note 3: Cumulative Effect of Accounting Change**

Effective January 1, 2001, the Company changed its accounting method for recognizing revenue on sales to distributors. Recognition of revenue and related gross profit on sales to distributors is now deferred until the distributor resells the product. Management of the Company believes that this accounting change was to a preferable method because it better aligns reported results with, focuses the Company on, and allows investors to better understand, end user demand for the products the Company sells through distribution. This revenue recognition policy is commonly used in the semiconductor industry.

The cumulative effect of the accounting change for periods prior to 2001 was a charge of $155.2 million ($116.4 million or $0.67 per share, net of income taxes) in the quarter ended March 30, 2001. The accounting change resulted in a reduction of the Company's net loss for the quarter ended March 30, 2001 of $14.2 million, or $.08 per share.

**Note 4: Balance Sheet Information**

Balance sheet information is as follows (in millions):

| | March 29, 2002 | December 31, 2001 |
|---|---|---|
| Inventories: | | |
| Raw materials | $ 13.4 | $ 14.4 |
| Work in process | 138.3 | 139.9 |
| Finished goods | 77.8 | 80.7 |
| | 229.5 | 235.0 |
| Less: Inventory reserves | (59.3) | (51.3) |
| | $170.2 | $183.7 |
| Intangible assets: | | |
| Developed technology | $ 59.3 | $ 59.3 |
| Less: Accumulated amortization | (23.6) | (20.7) |
| | $ 35.7 | $ 38.6 |

Estimated amortization expense of intangible assets is as follows:

| Year ending December 31, | |
|---|---|
| 2002 | $11.9 |
| 2003 | 11.9 |
| 2004 | 11.9 |
| 2005 | 2.9 |
| | $38.6 |

**Note 5: Restructuring and Other Charges**

In March 2002, the Company recorded a $7.1 million charge (net of a $0.1 million recovery) to cover costs associated with a worldwide restructuring program involving selling, general and administrative functions. The charge was to cover employee separation costs associated with the termination of 72 employees and included $0.2 of non-cash charges associated with the acceleration of the vesting of stock options for certain terminated employees. As of March 29, 2002, the remaining liability relating to the March 2002 charge to the restructuring program was $5.6 million. As of March 29, 2002, 14 employees have been terminated under the restructuring program.

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In March 2001, the Company recorded charges of $38.0 million to cover costs associated with a worldwide restructuring program involving both manufacturing locations, selling, general and administrative functions and other costs. The charge included $31.3 million to cover employee separation costs associated with the termination of approximately 1,100 employees, $2.9 million for asset impairments that were charged directly against the related assets and a $3.8 million charge to cover costs associated with the separation of one of the Company's executive officers. As of March 29, 2002, there was no remaining liability relating to the March 2001 charge to the restructuring program.

A summary of activity in the Company's restructuring reserves for the quarter ended March 29, 2002 is as follows (in millions):

| | |
|---|---|
| Balance, January 1, 2002 | $19.8 |
| Plus: March 2002 employee separation charge | 7.0 |
| Less: Payments charged against the reserve | (7.7) |
| Less: Reserve released to income | (0.1) |
| Balance, March 29, 2002 | $19.0 |

**Note 6: Sale of Investment in Joint Venture**

The Company had a 50% interest in Semiconductor Miniatures Products Malaysia Sdn. Bhd. ("SMP"). As a part of the joint venture agreement, the Company's joint venture partner, Philips Semiconductors International B.V. ("Philips"), had the right to purchase the Company's interest in SMP between January 2001 and July 2002. On February 1, 2001, effective December 31, 2000, Philips exercised its purchase right, acquiring the Company's 50% interest in SMP. This transaction resulted in proceeds of approximately $20.4 million and a pre-tax gain of approximately $3.1 million in the quarter ended March 30, 2001.

**Note 7: Earnings per Common Share**

Basic earnings (loss) per share are computed by dividing net income (loss) applicable to common stock adjusted for dividends accrued on the Company's redeemable preferred stock by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share generally assumes the conversion of the convertible redeemable preferred stock into common stock and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options. The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. For the quarters ended March 29, 2002 and March 30, 2001, the effect of stock option shares (as well as the assumed conversion of the redeemable preferred stock for the quarter ended March 29, 2002) were not included as the related impact would have been anti-dilutive. Pro-forma earnings (loss) per share assume that Statement of Financial Accounting Standard (SFAS), which the Company adopted January 1, 2002, was effective January 1, 2001. Earnings (loss) per share calculations are as follows (in millions, except per share data):

| | Quarter Ended | | |
|---|---|---|---|
| | March 29, 2002 | March 30, 2001 | Pro-forma March 30, 2001 |
| Reported net loss before cumulative effect of accounting change | $ (50.0) | $ (43.0) | $ (43.0) |
| Less: Redeemable preferred stock dividends | (2.1) | — | — |
| Net loss before cumulative effect of accounting change applicable to common stock | (52.1) | (43.0) | (43.0) |
| Add back: Goodwill amortization | — | — | 2.6 |
| Adjusted net loss before cumulative effect of accounting change | (52.1) | (43.0) | (40.4) |
| Cumulative effect of accounting change | — | (116.4) | (116.4) |
| Net loss applicable to common stock | $ (52.1) | $(159.4) | $(156.8) |
| Basic weighted average common shares outstanding | 174.8 | 172.8 | 172.8 |
| Add: Dilutive effect of stock options | — | — | — |
| Convertible redeemable preferred stock | — | — | — |
| Diluted weighted average common shares outstanding | 174.8 | 172.8 | 172.8 |
| Earnings per share: | | | |
| Basic: | | | |
| Net loss before cumulative effect of accounting change applicable to common stock | $ (0.30) | $ (0.25) | $ (0.25) |
| Add back: Goodwill amortization | — | — | 0.01 |
| Adjusted net loss before cumulative effect of accounting change | (0.30) | (0.25) | (0.24) |
| Cumulative effect of accounting change | — | (0.67) | (0.67) |
| Net loss applicable to common stock | $ (0.30) | $ (0.92) | $ (0.91) |
| Diluted: | | | |
| Net loss before cumulative effect of accounting change applicable to common stock | $ (0.30) | $ (0.25) | $ (0.25) |
| Add back: Goodwill amortization | — | — | 0.01 |
| Adjusted net loss before cumulative effect of accounting change | (0.30) | (0.25) | (0.24) |
| Cumulative effect of accounting change | — | (0.67) | (0.67) |
| Net loss applicable to common stock | $ (0.30) | $ (0.92) | $ (0.91) |

**Note 8: Long-Term Debt**

At June 29, 2001 the Company was not in compliance with minimum interest expense coverage ratio and leverage ratio covenants under its senior bank facilities. On August 13, 2001, the Company received a waiver in respect of this noncompliance at June 29, 2001 and in respect of any future noncompliance with these covenants through December 31, 2002. In connection with this waiver, the Company amended its senior bank facilities. As a condition to the waiver and amendment, the Company was required to obtain $100.0 million through an equity investment from an affiliate of TPG. The Company satisfied this requirement on September 7, 2001, when it issued 10,000 shares of series A Cumulative Convertible Redeemable Preferred Stock to an affiliate of TPG in exchange of $100.0 million ($99.2 million net of issuance costs). The key terms of this amendment as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 has been further amended as discussed in Note 12 "Subsequent Events". At March 29, 2002, the Company was in compliance with the required amended covenants.

In connection with its Recapitalization in August 1999, the Company and Semiconductor Components Industries, LLC (SCI LLC) (collectively, the "Issuers"), issued $400.0 million senior subordinated notes due 2009. As of March 29, 2002, $260.0 million of the senior subordinated notes were outstanding. The Company's other domestic subsidiaries (collectively, the "Guarantor Subsidiaries") have jointly and severally, irrevocably and unconditionally guaranteed the Issuers' obligations under the senior subordinated notes. The Guarantor Subsidiaries include holding companies whose net assets consist primarily of investments in the Company's Czech

subsidiaries, the Leshan joint venture and nominal equity interests in certain of the Company's other foreign subsidiaries as well as Semiconductor Components Industries of Rhode Island, Inc. The Leshan joint venture and the Company's majority-owned Czech subsidiaries (collectively, the "Non-Guarantor Subsidiaries") themselves are not guarantors of the senior subordinated notes.

The Company does not believe that the separate financial statements and other disclosures concerning the Guarantor Subsidiaries provide any additional information that would be material to investors in making an investment decision. Condensed consolidating financial information for the Issuers, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries as of and for quarters ended March 29, 2002 and March 30, 2001 are as follows (in millions):

| | Issuers | | | | | |
|---|---|---|---|---|---|---|
| | ON Semiconductor Corporation | SCI LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
| **As of March 29, 2002** | | | | | | |
| Cash and cash equivalents | $ — | $ 85.5 | $ — | $ 62.1 | $ — | $ 147.6 |
| Receivables, net | — | 56.5 | — | 96.2 | — | 152.7 |
| Inventories | — | 28.5 | 3.2 | 139.0 | (0.5) | 170.2 |
| Other current assets | — | 13.6 | 0.1 | 32.4 | — | 46.1 |
| Total current assets | — | 184.1 | 3.3 | 329.7 | (0.5) | 516.6 |
| Property, plant and equipment, net | — | 140.6 | 39.7 | 352.7 | (4.4) | 528.6 |
| Deferred income taxes | — | — | — | — | — | — |
| Goodwill and other intangibles, net | — | 8.1 | 104.9 | — | — | 113.0 |
| Investments and other assets | (500.6) | 94.5 | 44.9 | 1.0 | 496.6 | 136.4 |
| Total assets | $(500.6) | $ 427.3 | $192.8 | $683.4 | $ 491.7 | $1,294.6 |
| Accounts payable | $ — | $ 33.1 | $ 3.0 | $ 75.8 | $ — | $ 111.9 |
| Accrued expenses and other current liabilities | — | 89.3 | 1.3 | 28.9 | 2.0 | 121.5 |
| Deferred income on sales to distributors | — | 35.2 | — | 42.9 | — | 78.1 |
| Total current liabilities | — | 157.6 | 4.3 | 147.6 | 2.0 | 311.5 |
| Long-term debt (1) | 260.0 | 1,351.6 | — | 21.2 | (260.0) | 1,372.8 |
| Other long-term liabilities | — | 56.2 | — | 12.1 | — | 68.3 |
| Intercompany (1) | (298.7) | (617.7) | 160.2 | 496.7 | 259.5 | — |
| Total liabilities | (38.7) | 947.7 | 164.5 | 677.6 | 1.5 | 1,752.6 |
| Minority interests in consolidated subsidiaries | — | — | — | — | 3.9 | 3.9 |
| Redeemable preferred stock | 103.7 | — | — | — | — | 103.7 |
| Stockholders' equity (deficit) | (565.6) | (520.4) | 28.3 | 5.8 | 486.3 | (565.6) |
| Liabilities, minority interests and | | | | | | — |
| stockholders' equity (deficit) | $(500.6) | $ 427.3 | $192.8 | $683.4 | $ 491.7 | $1,294.6 |
| **As of December 31, 2001** | | | | | | |
| Cash and cash equivalents | $ — | $ 124.9 | $ 0.1 | $ 54.8 | $ — | $ 179.8 |
| Receivables, net | — | 62.4 | — | 79.9 | — | 142.3 |
| Inventories | — | 25.9 | 3.1 | 158.8 | (4.1) | 183.7 |
| Other current assets | — | 6.8 | 0.1 | 38.1 | — | 45.0 |
| Total current assets | — | 220.0 | 3.3 | 331.6 | (4.1) | 550.8 |
| Property, plant and equipment, net | — | 148.3 | 42.7 | 368.9 | (4.4) | 555.5 |
| Deferred income taxes | — | — | — | 1.3 | — | 1.3 |
| Goodwill and other intangibles, net | — | 8.0 | 107.9 | — | — | 115.9 |
| Investments and other assets | (453.1) | 62.4 | 45.4 | 1.0 | 481.2 | 136.9 |
| Total assets | $(453.1) | $ 438.7 | $199.3 | $702.8 | $ 472.7 | $1,360.4 |
| Accounts payable | $ — | $ 33.4 | $ 2.4 | $ 75.7 | $ — | $ 111.5 |
| Accrued expenses and other current liabilities | — | 86.8 | 0.2 | 37.0 | — | 124.0 |
| Deferred income on sales to distributors | — | 43.3 | — | 56.1 | — | 99.4 |
| Total current liabilities | — | 163.5 | 2.6 | 168.8 | — | 334.9 |
| Long-term debt (1) | 260.0 | 1,352.6 | — | 21.9 | (260.0) | 1,374.5 |
| Other long-term liabilities | — | 50.6 | — | 12.1 | — | 62.7 |
| Intercompany (1) | (297.3) | (630.4) | 156.1 | 510.1 | 261.5 | — |
| Total liabilities | (37.3) | 936.3 | 158.7 | 712.9 | 1.5 | 1,772.1 |
| Minority interests in consolidated subsidiaries | — | — | — | — | 4.1 | 4.1 |
| Redeemable preferred stock | 101.6 | — | — | — | — | 101.6 |
| Stockholders' equity (deficit) | (517.4) | (497.6) | 40.6 | (10.1) | 467.1 | (517.4) |
| Liabilities, minority interests and | | | | | | — |
| stockholders' equity (deficit) | $(453.1) | $ 438.7 | $199.3 | $702.8 | $ 472.7 | $1,360.4 |

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| | Issuers | | | | | |
|---|---|---|---|---|---|---|
| | ON Semiconductor Corporation | SCI LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
| **For the quarter ended March 29, 2002** | | | | | | |
| Revenues | $ — | $ 121.1 | $ 13.0 | $306.0 | $(171.0) | $ 269.1 |
| Cost of sales | — | 125.1 | 15.4 | 244.9 | (174.5) | 210.9 |
| Gross profit | — | (4.0) | (2.4) | 61.1 | 3.5 | 58.2 |
| Research and development | — | 3.8 | 1.2 | 12.3 | — | 17.3 |
| Selling and marketing | — | 7.4 | 0.5 | 6.7 | — | 14.6 |
| General and administrative | — | 16.6 | — | 12.6 | — | 29.2 |
| Amortization of goodwill and other intangibles | — | — | 3.0 | — | — | 3.0 |
| Restructuring and other charges | — | 7.1 | — | — | — | 7.1 |
| Total operating expenses | — | 34.9 | 4.7 | 31.6 | — | 71.2 |
| Operating income (loss) | — | (38.9) | (7.1) | 29.5 | 3.5 | (13.0) |
| Interest expense, net | — | (19.1) | (4.7) | (10.9) | — | (34.7) |
| Equity earnings | (50.0) | 33.8 | (0.5) | — | 17.9 | 1.2 |
| Income (loss) before income taxes and minority interests | (50.0) | (24.2) | (12.3) | 18.6 | 21.4 | (46.5) |
| Income tax benefit (provision) | — | (1.7) | — | (2.0) | — | (3.7) |
| Minority interests | — | — | — | — | 0.2 | 0.2 |
| Net income (loss) | $ (50.0) | $ (25.9) | $(12.3) | $ 16.6 | $ 21.6 | $ (50.0) |
| **For the quarter ended March 30, 2001** | | | | | | |
| Revenues | $ — | $ 208.6 | $ 16.3 | $434.6 | $(299.0) | $ 360.5 |
| Cost of sales | — | 178.6 | 13.8 | 381.1 | (299.6) | 273.9 |
| Gross profit | — | 30.0 | 2.5 | 53.5 | 0.6 | 86.6 |
| Research and development | — | 4.3 | 4.1 | 14.5 | — | 22.9 |
| Selling and marketing | — | 12.2 | 1.6 | 10.0 | — | 23.8 |
| General and administrative | — | 25.5 | 2.3 | 9.0 | — | 36.8 |
| Amortization of goodwill and other intangibles | — | — | 5.8 | — | — | 5.8 |
| Restructuring and other charges | — | 21.7 | 1.3 | 15.0 | — | 38.0 |
| Total operating expenses | — | 63.7 | 15.1 | 48.5 | — | 127.3 |
| Operating income (loss) | — | (33.7) | (12.6) | 5.0 | 0.6 | (40.7) |
| Interest expense, net | — | (12.5) | (4.7) | (12.0) | — | (29.2) |
| Equity earnings | (159.4) | (29.1) | (0.4) | — | 189.5 | 0.6 |
| Gain on the sale of investment in joint venture | — | — | 3.1 | — | — | 3.1 |
| Income (loss) before income taxes, minority interests and cumulative effect of accounting change, net | (159.4) | (75.3) | (14.6) | (7.0) | 190.1 | (66.2) |
| Income tax benefit (provision) | — | 11.9 | 7.9 | (0.6) | 3.5 | 22.7 |
| Minority interests | — | — | — | — | 0.5 | 0.5 |
| Cumulative effect of accounting change | — | (44.1) | — | (72.3) | — | (116.4) |
| Net income (loss) | $(159.4) | $(107.5) | $ (6.7) | $ (79.9) | $ 194.1 | $(159.4) |

| | Issuers | | | | | |
|---|---|---|---|---|---|---|
| | ON Semiconductor Corporation | SCI LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
| **For the quarter ended March 29, 2002** | | | | | | |
| Net cash provided by (used in) operating activities | $ — | $(104.8) | $ — | $ 80.4 | $ — | $ (24.4) |
| Cash flows from investing activities: | | | | | | |
| Purchases of property, plant and equipment | — | (0.4) | (0.1) | (5.1) | — | (5.6) |
| Proceeds from sales of property, plant and equipment | — | 0.2 | — | — | — | 0.2 |
| Net cash used in investing activities | — | (0.2) | (0.1) | (5.1) | — | (5.4) |
| Cash flows from financing activities: | | | | | | |
| Intercompany loans | — | (72.5) | — | 72.5 | — | — |
| Intercompany loan repayments | — | 140.4 | — | (140.4) | — | — |
| Payments on capital lease obligation | — | (0.7) | — | — | — | (0.7) |
| Repayment of long term debt | — | (2.8) | — | — | — | (2.8) |
| Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan | — | 1.2 | — | — | — | 1.2 |
| Net cash provided by financing activities | — | 65.6 | — | (67.9) | — | (2.3) |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | (0.1) | — | (0.1) |
| Net increase (decrease) in cash and cash equivalents | — | (39.4) | (0.1) | 7.3 | — | (32.2) |
| Cash and cash equivalents, beginning of period | — | 124.9 | 0.1 | 54.8 | — | 179.8 |
| Cash and cash equivalents, end of period | $ — | $ 85.5 | $ — | $ 62.1 | $ — | $ 147.6 |
| **For the quarter ended March 30, 2001** | | | | | | |
| Net cash provided by (used in) operating activities | $ — | $ 77.0 | $ 2.2 | $(159.8) | $ 0.1 | $ (80.5) |
| Cash flows from investing activities: | | | | | | — |
| Purchases of property, plant and equipment | — | (15.8) | (2.7) | (33.4) | — | (51.9) |
| Investments in joint ventures and other | — | — | — | (0.5) | — | (0.5) |
| Acquisition of minority interests in consolidated subsidiaries | — | — | — | — | (0.1) | (0.1) |
| Proceeds from sale of investment in joint venture | — | 20.4 | — | — | — | 20.4 |
| Loans to joint venture | — | (5.0) | — | — | — | (5.0) |
| Proceeds from sales of property, plant and equipment | — | 0.1 | — | 0.2 | — | 0.3 |
| Net cash used in investing activities | — | (0.3) | (2.7) | (33.7) | (0.1) | (36.8) |
| Cash flows from financing activities: | | | | | | |
| Intercompany loans | — | (140.0) | — | 140.0 | — | — |
| Intercompany loan repayments | — | 30.4 | — | (30.4) | — | — |
| Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan | — | 2.4 | — | — | — | 2.4 |
| Net cash (used in) provided by financing activities | — | (107.2) | — | 109.6 | — | 2.4 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | 0.7 | — | 0.7 |
| Net increase (decrease) in cash and cash equivalents | — | (30.5) | (0.5) | (83.2) | — | (114.2) |
| Cash and cash equivalents, beginning of period | — | 44.9 | (1.1) | 145.1 | — | 188.9 |
| Cash and cash equivalents, end of period | $ — | $ 14.4 | $(1.6) | $ 61.9 | $ — | $ 74.7 |

(1) For purposes of this presentation, the senior subordinated notes have been reflected in the condensed balance sheets of both the Company and SCI LLC with the appropriate offset reflected in the eliminations column. Interest expense has been allocated to SCI LLC only.

**Note 9: Commitments and Contingencies**

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

During the period July 5, 2001 through July 27, 2001, the Company was named as a defendant in three shareholder class action lawsuits that were filed in federal court in New York City against it and certain of its current and former officers, current directors and the underwriters for its initial public offering ("IPO"). The lawsuits allege violations of the federal securities laws and have been docketed in the U.S. District Court for the Southern District of New York as: Abrams v. ON Semiconductor Corp., et al., C.A. No. 01-CV-6114; Breuer v. ON Semiconductor Corp., et al., C.A. No. 01-CV-6287; and Cohen v. ON Semiconductor Corp., et al., C.A. No. 01-CV-6942. On April 19, 2002, the plaintiffs filed a single consolidated amended complaint that supersedes the individual complaints originally filed. The amended complaint alleges, among other things, that the underwriters of the Company's IPO improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of the Company's common stock in the aftermarket as conditions of receiving shares in the Company's IPO. The amended complaint further alleges that these supposed practices of the underwriters should have been disclosed in the Company's IPO prospectus and registration statement. The amended complaint alleges violations of both the registration and antifraud provisions of the federal securities laws and seeks rescission of the plaintiffs' alleged purchases of the Company's common stock as well as unspecified damages. The Company understands that various other plaintiffs have filed substantially similar class action cases against over 300 other publicly traded companies and their IPO underwriters in New York City, which along with the cases against the Company have all been transferred to a single federal district judge for purposes of coordinated case management. The Company believes that the claims against it are without merit, and intends to defend the litigation vigorously.

Plaintiffs recently expressed interest in attempting to settle the claims against the issuer and individual defendants in these cases, including the Company, and a former federal district judge has been selected by the parties to act as mediator. Settlement discussions are ongoing among the representatives of the issuer defendants, counsel for the plaintiffs, and representatives of the major insurance companies that insure the issuer defendants, but there can be no guarantee that these discussions will result in a settlement of the claims against the Company. Discussions are also occurring with the underwriter defendants in these cases regarding the possibility of the underwriters paying the issuer defendants' costs and indemnifying the issuers against potential liability, but there can be no guarantee that these discussions will result in any agreement.

**Note 10: Related Party Transactions**

Related party activity between the Company and Motorola is as follows (in millions):

| | Quarter ended March 29, 2002 | Quarter ended March 30, 2001 |
|---|---|---|
| Purchases of manufacturing services from Motorola | $ 3.2 | $25.5 |
| Cost of other services, rent and equipment purchased from Motorola | $ 0.5 | $12.6 |

**Note 11: Recently Adopted Accounting Pronouncements**

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

The Company's interest rate swaps in effect at January 1, 2001 have been designated as cash flow hedges, are measured at fair value and recorded as assets or liabilities in the consolidated balance sheet. Upon the adoption of SFAS 133, the Company recorded an after-tax charge of approximately $3.4 million to accumulated other comprehensive income (loss) as of January 1, 2001. This charge

consisted of an approximate $2.1 million adjustment necessary to record the Company's interest rate swaps in the consolidated balance sheet at their estimated fair values as well as the write-off of an approximate $3.5 million deferred charge relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under the Company's senior bank facilities, both before income taxes of approximately $2.2 million. The Company recorded a $3.1 million after-tax charge to accumulated other comprehensive income (loss) during the first quarter to adjust its cash flow hedge to fair-value at March 30, 2001.

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

Effective January 1, 2002, the Company adopted the provisions of SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets". The provisions of SFAS 141 require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001; provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill; and, require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142, the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill based on certain criteria. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 prohibit the amortization of goodwill and indefinite-lived intangible assets and require that such assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), require that reporting units be identified for the purpose of assessing potential future impairments of goodwill; and, remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

The Company has determined its reporting units and allocated the amounts of goodwill, intangible assets, other assets and liabilities to those reporting units. In connection with the adoption of SFAS 142, the Company reclassified the unamortized balance of assembled workforce relating the Cherry acquisition of $6.8 million into goodwill. The Company will no longer record an annual amortization of $10.6 million relating to the existing goodwill as adjusted for the assembled workforce reclassification.

SFAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify a potential impairment and, in transition, this step must be measured as of the beginning of the year of adoption. However, the Company has six months from the date of adoption to complete the first step. The second step of the goodwill impairment test measures the amount of the impairment loss (measured at the beginning of the year of adoption), if any, and must be completed by the end of the fiscal year. Any impairment loss resulting from the transitional impairment tests will be reflected as the cumulative change in accounting principle in the first quarter of 2002. The Company has not yet determined what effect these impairment tests will have on its financial position and results of operations.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" as of January 1, 2002. SFAS 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company's adoption of SFAS 144 did not impact its financial condition or results of operations.

**Note 12: Subsequent Events**

On April 24, 2002, the Company filed a Registration Statement on Form S-3 with the Securities and Exchange Commission to register 40,000,000 shares of its common stock. This is a shelf registration statement in which the Company may sell the registered shares in one or more offerings depending on market and general business conditions.

On May 6, 2002, the Company and SCI LLC issued $300 million of 12% Senior Secured Notes (the Notes) pursuant to a Rule 144A/Regulation S offering under the federal securities laws. The Notes mature on May 15, 2008 and are non-callable for four years. The Notes, which pay interest semi-annually on May 15 and November 15, were issued at a discount of 96.902% and were used to prepay a portion of the Company's senior bank facilities. The Notes will accrue interest at the rate of 12% per annum beginning on May 6, 2002, or to the most recent date to which interest has been paid or provided for; provided that commencing on February 6, 2003 each note will accrue interest at a rate of 13% per annum unless prior thereto the Company has issued common stock or certain convertible preferred stock to financial sponsors generating at least $100 million in gross cash proceeds and has used the net cash proceeds to repay indebtedness under its senior bank facilities or under any other credit facility secured by a first-priority lien and has permanently reduced the related loan commitment equal to the amount prepaid. Such increase in interest rate, if any, will remain effective until such time as the Company has completed such a stock issuance and repayment, unless such stock issuance and repayment occurs after August 6, 2003, in which case such increase in interest rate will remain in effect.

The Notes are jointly and severally guaranteed on a senior basis by the Company's domestic subsidiaries that are guarantors under its senior bank facilities. In addition, the Notes and the guarantees are secured on a second priority basis by the capital stock or other equity interest of domestic subsidiaries, 65% of the capital stock or other equity interests of certain foreign

subsidiaries and substantially all other assets, in each case that are held by the issuers or any of the guarantors, but only to the extent that obligations under the senior bank facilities are secured by a first-priority lien thereon.

The Company and its lenders have amended the Company's senior bank facilities to permit the issuance of the Notes, to permit the second-priority liens securing the Notes and to provide that, subject to specified conditions:

- minimum interest expense coverage ratio and maximum leverage ratio requirements will not apply until periods beginning after December 31, 2003;
- from January 1, 2004 to June 30, 2006, the minimum required interest expense coverage ratio will decrease and the maximum permitted leverage ratio will increase, in each case as compared to the ratios currently required under the credit agreement;
- minimum EBITDA levels will apply until December 31, 2003 and minimum cash levels will apply until certain minimum interest coverage ratio and maximum leverage ratio requirements are met;
- sales of property, plant and equipment in connection with specified restructuring activities will be permitted; and
- borrowings of up to $100 million by or for the benefit of the Company’s joint venture in Leshan, China will be permitted, the proceeds of which would be used to prepay loans under the senior bank facilities.

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

*You should read the following discussion in conjunction with our consolidated financial statements and related notes thereto as of and for the year ended December 31, 2001 included in our Annual Report on Form 10-K filed with the SEC on March 29, 2002. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to certain factors, including those discussed below and elsewhere in this Form 10-Q.*

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

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

We have four main product lines: power management and standard analog devices, metal oxide semiconductor (MOS) power devices, high frequency clock and data management devices and standard components. Our extensive portfolio of devices enables us to offer advanced integrated circuits and the complementary parts that deliver system level functionality and design solutions. We are an industry leader 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. This has become increasingly important to our customers as they seek to reduce the number of suppliers with which they conduct business.

*Recent developments.* After over two years of extremely positive industry fundamentals, the semiconductor industry began to experience a severe slowdown in demand in the last quarter of 2000, which continued into 2001 as customers delayed or cancelled bookings in order to manage their inventories in line with incoming business. However, in the third and fourth quarters of 2001 and continuing into the first quarter of 2002, demand for our products began to show signs of stabilization as customer orders across all of our product families were up from the second quarter of 2001. Beginning in the third quarter of 2001, the booked-to-billed ratio increased to greater than 1.0 and has increased further in each of the following two quarters, reaching a high of 1.15 for the quarter ended March 29, 2002. Our 13 week backlog has also increased on a monthly basis from $199.0 million at December 31, 2001 to $223.1 million as of March 29, 2002.

Our total revenues were $269.1 million in the first quarter of 2002, compared to $360.5 million in the first quarter of 2001 and $266.9 in the fourth quarter of 2001. We currently expect our total revenues for the second quarter of 2002 to be between $270 million and $275 million.

On April 24, 2002, the Company filed a Registration Statement on Form S-3 with the Securities and Exchange Commission to register 40,000,000 shares of its common stock. This is a shelf registration statement in which the Company may sell the registered shares in one or more offerings depending on market and general business conditions.

On May 6, 2002, we issued $300 million of 12% Senior Secured Notes (the Notes) pursuant to a Rule 144A/Regulation S offering under the federal securities laws. The Notes mature on May 15, 2008 and are non-callable for four years. The Notes, which pay interest semi-annually on May 15 and November 15, were issued at a discount of 96.902% and were used to prepay a portion of our senior bank facilities. The Notes will accrue interest at the rate of 12% per annum beginning on May 6, 2002, or to the most recent date to which interest has been paid or provided for; provided that commencing on February 6, 2003 each note will accrue interest at a rate of 13% per annum unless prior thereto we have issued common stock or certain convertible preferred stock to financial sponsors generating at least $100 million in gross cash proceeds and have used the net cash proceeds to repay indebtedness under our senior bank facilities or under any other credit facility secured by a first-priority lien and have permanently reduced the related loan commitment equal to the amount prepaid. Such increase in interest rate, if any, will remain effective until such time as we have completed such a stock issuance and repayment, unless such stock issuance and repayment occurs after August 6, 2003, in which case such increase in interest rate will remain in effect.

The Notes are jointly and severally guaranteed on a senior basis by our domestic subsidiaries that are guarantors under our senior bank facilities. In addition, the Notes and the guarantees are secured on a second priority basis by the capital stock or other equity interest of domestic subsidiaries, 65% of the capital stock or other equity interests of certain foreign subsidiaries and substantially all other assets, in each case that are held by us or any of the guarantors, but only to the extent that obligations under our senior bank facilities are secured by a first-priority lien thereon.

The Company and its lenders have amended the Company's senior bank facilities to permit the issuance of the Notes, to permit the second-priority liens securing the Notes and to provide that, subject to specified conditions:

- minimum interest expense coverage ratio and maximum leverage ratio requirements will not apply until periods beginning after December 31, 2003;
- from January 1, 2004 to June 30, 2006, the minimum required interest expense coverage ratio will decrease and the maximum permitted leverage ratio will increase, in each case as compared to the ratios currently required under the credit agreement;
- minimum EBITDA levels will apply until December 31, 2003 and minimum cash levels will apply until certain minimum interest coverage ratio and maximum leverage ratio requirements are met;
- sales of property, plant and equipment in connection with specified restructuring activities will be permitted; and
- borrowings of up to $100 million by or for the benefit of the Company's joint venture in Leshan, China will be permitted, the proceeds of which would be used to prepay loans under the senior bank facilities.

*Restructuring Program*. As a response to the recent downturn in the semiconductor industry, we initiated a worldwide restructuring program to better align our cost structure with our revenues. The principle elements of this program are (1) implementing a manufacturing rationalization plan that involves, among other things, plant closures and efficient reallocation of capacity among other facilities, the relocation or outsourcing of related operations to take advantage of lower cost labor markets and the rationalization of our product portfolio; (2) reducing non-manufacturing personnel and implementing other cost controls, in connection with which we have relocated certain of our order entry, finance, quality assurance and information technology functions to lower cost locations and simplified our overall corporate structure and our regional infrastructure; and (3) improving our liquidity by reducing capital expenditures, actively managing working capital and reducing our cost structure through various measures, including reducing some employees compensation and spending on information technology and outside consultants.

We expect that the elements of this program that we completed during 2001 and thus far in 2002 and the further elements we intend to complete during the remainder of 2002 will generate annualized cost savings of approximately $360 million starting in the fourth quarter of 2002, as compared to our cost structure during the first quarter of 2001. As of the end of the first quarter of 2002, we had completed actions to achieve an estimated $290 million of these savings, which were mostly the result of the rationalization of manufacturing operations and personnel reductions and other cost reductions.

*Waiver and Amendment to Senior Bank Facilities.* At June 29, 2001 we were not in compliance with minimum interest expense coverage ratio and leverage ratio covenants under our senior bank facilities. On August 13, 2001, we received a waiver in respect of this noncompliance at June 29, 2001 and in respect of any future noncompliance with these covenants through December 31, 2002. In connection with this waiver, we amended our senior bank facilities. As a condition to the waiver and amendment, we were required to obtain $100.0 million through an equity investment from an affiliate of TPG. We satisfied this requirement on September 7, 2001,when we issued 10,000 shares of series A Cumulative Convertible Redeemable Preferred Stock to an affiliate of TPG in exchange of $100.0 million ($99.2 million net of issuance costs). The key terms of this amendment as described in our Annual Report on Form 10-K for the year ended December 31, 2001 has been further amended as discussed above. At March 29, 2002, the Company was in compliance with the required amended covenants.

*Recently Adopted Accounting Policies and Accounting Changes.* Effective January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets". The provisions of SFAS 141 require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001; provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill; and, require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142, we reclassify the carrying amounts of certain intangible assets into or out of goodwill based on certain criteria. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 prohibit the amortization of goodwill and indefinite-lived intangible assets and require that such assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), require that reporting units be identified for the purpose of assessing potential future impairments of goodwill; and, remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

We have determined our reporting units and allocated the amounts of goodwill, intangible assets, other assets and liabilities to those reporting units. In connection with the adoption of SFAS 142, we reclassified the unamortized balance of assembled workforce relating the Cherry acquisition of $6.8 million into goodwill. We will no longer record an annual amortization of $10.6 million relating to the existing goodwill as adjusted for the assembled workforce reclassification. We will also evaluate the useful lives assigned to its intangible assets.

SFAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify a potential impairment and, in transition, this step must be measured as of the beginning of the year of adoption. However, we have six months from the date of adoption to complete the first step. The second step of the goodwill impairment test measures the amount of the impairment loss (measured at the beginning of the year of adoption), if any, and must be completed by the end of the our fiscal year. Any impairment loss resulting from the transitional impairment tests will be reflected as the cumulative change in accounting principle in the first quarter of 2002. We have not yet determined what effect these impairment tests will have on its earnings and financial position.

Also as of January 1, 2002, we adopted SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. SFAS 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The implementation of SFAS 144 did not impact our financial condition or results of operations.

On January 1, 2001, we adopted SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, which establishes standards for the accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and hedging activities.

Our interest rate swaps in effect at January 1, 2001 were designated as cash flow hedges, were measured at fair value and recorded as assets or liabilities in the consolidated balance sheet. Upon the adoption of SFAS 133, we recorded an after-tax charge of approximately $3.4 million to accumulated other comprehensive income (loss) as of January 1, 2001. This charge consists of an approximate $2.1 million adjustment necessary to record our interest rate swaps in our consolidated balance sheet at their estimated fair values as well as the write-off of an approximate $3.5 million deferred charge (included in other assets in the accompanying consolidated balance sheet at December 31, 2000) relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under our senior bank facilities, both before income taxes of approximately $2.2 million. We recorded a $3.1 million after-tax charge to accumulated other comprehensive income during the first quarter of 2001 to adjust our cash flow hedge to fair-value at March 30, 2001.

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

Also effective January 1, 2001, we changed our accounting method for recognizing revenue on sales to distributors. Recognition of revenue and related gross profit on sales to distributors is now deferred until the distributor resells the product. We believe that this accounting change is a preferable method because it better aligns reporting results with, focuses us on, and allows investors to better understand, end user demand for the products we sell through distribution. This revenue recognition policy is commonly used in the semiconductor market.

The cumulative effect prior to 2001 of the accounting change was a charge of $155.2 million ($116.4 million or $0.67 per share, net of income taxes) for the quarter ended March 30, 2001. The accounting change resulted in a reduction of our net loss for the quarter ended March 30, 2001 of $14.2 million, or $.08 per share.

*Joint venture.* The terms of our joint venture agreement with Philips Semiconductors International B.V. SMP (“Philips”) relating to a back-end assembly facility located in Malaysia provided Philips with the right to purchase our interest between January 2001 and July 2002. On February 1, 2001, Philips exercised its purchase right, acquiring full ownership of this joint venture as of December 31, 2000. This transaction resulted in proceeds of approximately $20.4 million and a pretax gain of approximately $3.1 million. The acquisition of the joint venture by Philips did not have a material impact on our financial condition or results of operations.

**Critical Accounting Policies**

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

*Revenue.* We generate revenue from the sales of our semiconductor products to original equipment manufactures, distributors and electronic manufacturing service providers. We also generate revenue, although to a much lesser extent, from foundry services provided to Motorola pursuant to agreements signed in connection with our Recapitalization.

Prior to January 1, 2001, we recognized revenue on semiconductor sales when title passed to the customer. Provisions were also recorded at that time for estimated sales return from our distributors as well as for other related sales costs and allowances. Effective January 1, 2001, we changed our revenue recognition policy for distributor sales so that the related revenues are now deferred until the distributor resells the product to the end user. This change also eliminated the need to provide for estimated sales returns for distributors. Deferred income on sales to distributors as reflected in our consolidated balance sheet represents the net margin (deferred revenue less associated costs of sales) on inventory on hand at our distributors at the end of the period.

We believe that this change better aligns our reported results with, focuses us on and enables investors to better understand end user demand for the products we sell through distributors.

*Inventories.* We carry our products inventories at the lower of standard cost (which approximates cost on a first-in, first-out basis) or market. We also record provisions for obsolete or slow moving product inventories based upon a regular analysis of inventory levels on hand compared to historical and projected end user demand. General market conditions as well as our own design activities can cause certain of our products to become obsolete.

*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 are ultimately 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.

*Long-lived assets.* To conduct our worldwide business operations, we acquire tangible and intangible assets. We periodically evaluate the recoverability of the carrying amount of our long-lived assets (including property, plant and equipment, goodwill and other intangibles) 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 judgement 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.

*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. Each of these assumptions is based upon management's judgement, considering all known trends and uncertainties. Actual pension plan returns significantly below our assumed rate of return would result in materially lower pension income (or higher expense) in future years.

**Results of Operations**

*Quarter Ended March 29, 2002 Compared To Quarter Ended March 30, 2001*

*Total revenues.* Total revenues decreased $91.4 million, or 25.4%, to $269.1 million in the first quarter of 2002 from $360.5 million in the first quarter of 2001, due to reduced demand for our products resulting from the recent economic downturn and actions taken by our customers to manage their inventories in line with incoming business.

*Net product revenues.* Net product revenues decreased $88.3 million, or 24.7%, to $268.7 million in the first quarter of 2002 from $357.0 million in the first quarter of 2001. Net revenues for standard component products, which accounted for 46.6% of net product revenues in the first quarter of 2002, decreased 22.8% to $125.1 million from $162.1 million in the first quarter of 2001. Net revenues for power management and standard analog products, which accounted for 32.6% of net product revenues in the first quarter of 2002, decreased 11.2% to $87.6 million compared to $98.6 million the first quarter of 2001. Net product revenues from MOS power products, which accounted for 12.8% of net product revenues in the first quarter of 2002 decreased 19.7% to $34.4 million from $42.8 million in the first quarter of 2001. Net product revenues for high frequency clock and data management products, which accounted for 8.0% of net product revenues in the first quarter of 2002, decreased 59.6% to $21.6 million compared to $53.5 million in the first quarter of 2001.

Approximately 38%, 42% and 20% of our net product revenues in the first quarter of 2002 were derived from the Americas, Asia/Pacific and Europe (including the Middle East), respectively, compared to 44%, 33% and 23%, respectively, in the first quarter of 2001. The change from prior year reflects the continuing recovery of the Asia/Pacific markets.

*Foundry revenues.* Foundry revenues from Motorola decreased $3.1 million, or 88.6%, to $0.4 million in the first quarter of 2002 from $3.5 million in the first quarter of 2001. We expect that these revenues will continue to decline in the future. Motorola continues to be one of our largest original equipment manufacturer (OEM) customers.

*Cost of sales.* Cost of sales decreased $63.0 million, or 23.0%, to $210.9 million in the first quarter of 2002 from $273.9 million in the first quarter of 2001, primarily as a result of decreased sales volume offset by lower factory utilization.

*Gross profit.* Gross profit (computed as total revenues less cost of sales) decreased $28.4 million, or 32.8%, to $58.2 million in the first quarter of 2002 from $86.6 million in the first quarter of 2001. As a percentage of total revenues, gross margin declined to 21.6% (21.5% for net product gross margin) in the first quarter of 2002 from 24.0% (23.8% for net product gross margin) in the first quarter of 2001. The decline in gross profit was primarily due to lower factory utilization resulting from lower customer demand. Approximately 33% of this decrease was due to reduced volume with the remainder due to pricing reductions.

*Operating expenses*

*Research and development.* Research and development costs decreased $5.6 million, or 24.5%, to $17.3 million in the first quarter of 2002 from $22.9 million in the first quarter of 2001, primarily as a result of aligning our operating costs with our revenues. As a percentage of net product revenues, research and development costs remained consistent at 6.4% in the first quarter of 2002 and 6.4% in the first quarter of 2001. We introduced 63 new products in the first quarter of 2002. The primary emphasis of our new product development efforts is on power management and standard analog and high frequency clock and data management solutions, the highest margin and fastest potential growth product families within our portfolio, with 80% of our overall research and development investments targeted in these areas. Our long-term target for research and development costs is 5-6% of revenues.

*Selling and marketing.* Selling and marketing expenses decreased by $9.2 million, or 38.7%, to $14.6 million in the first quarter of 2002 from $23.8 million in the first quarter of 2000. The decrease in selling and marketing expenses over the first quarter of 2001 was attributable to our restructuring program. These actions included the downsizing of our sales force, closing of sales offices as well as our regional sales headquarters and centralizing and relocating our order entry functions to lower cost locations. As a percentage of net product revenues, these costs decreased to 5.4% in the first quarter of 2001 from 6.7% in the first quarter of 2001.

*General and administrative.* General and administrative expenses decreased by $7.6 million, or 20.7% to $29.2 million in the first quarter of 2002 from $36.8 million in the first quarter of 2001, as a result of cost reduction actions and lower discretionary spending.

As a percentage of net product revenues, these costs increased to slightly 10.9% in the first quarter of 2002 from 10.3% in the first quarter 2001.

*Amortization of goodwill and other intangibles.* Amortization of goodwill and other intangibles decreased $2.8 million to $3.0 million in first quarter of 2002 from $5.8 million the first quarter of 2001, as a result of the adoption of SFAS 142 effective January 1, 2002, which eliminated the amortization of goodwill. Goodwill amortization was $2.6 million for the quarter ended March 30, 2001.

*Restructuring and other charges.* In March 2002, the Company recorded a $7.1 million charge (net of a $0.1 million recovery) to cover costs associated with a worldwide restructuring program involving selling, general and administrative functions. The charge was to cover employee separation costs associated with the termination of 72 employees and included $0.2 of non-cash charges associated with the acceleration of the vesting of stock options for certain terminated employees. As of March 29, 2002, the remaining liability relating to the March 2002 charges to the restructuring program was $5.6 million. As of March 29, 2002, 14 employees have been terminated under the restructuring program.

In March 2001, the Company recorded a $38.0 million charge to cover costs associated with a worldwide restructuring program involving both manufacturing locations, selling, general and administrative functions and other costs. The charge included $31.3 million to cover employee separation costs associated with the termination of approximately 1,100 employees, $2.9 million for asset impairments that were charged directly against the related assets and a $3.8 million charge to cover costs associated with the separation of one of the Company's executive officers. As of March 30, 2002, there was no remaining liability relating to the March 2001 charges to the restructuring program.

A summary of activity in our restructuring reserves for the quarter ended March 29, 2002 is as follows (in millions):

| | |
|---|---|
| Balance, December 31, 2001 | $19.8 |
| Plus: March 2002 employee separation charge | 7.0 |
| Less: Payments charged against the reserve | (7.7) |
| Less: Reserve released | (0.1) |
| Balance, March 29, 2002 | $19.0 |

*Operating loss.* Operating loss decreased $27.7 million, to $13.0 million in the first quarter of 2002 compared to $40.7 million in the first quarter of 2001. This decrease was due to a decrease in operating costs as a result of the restructuring program implemented during 2001 and 2002 offset by decreased gross profits resulting from reduced product revenues and lower factory utilization. Excluding restructuring and other charges the operating loss for the quarter ended March 29, 2002 would have been $5.9 million compared to an operating loss of $2.7 million for the quarter ended March 30, 2001.

*Interest expense.* Interest expense increased $5.5 million, or 18.8% to $34.7 million in the first quarter of 2002 from $29.2 million in the first quarter of 2001. The increase was due to interest related to the $125 million draw on our revolving line of credit in May 2001 as well as supplemental interest charges resulting from the August 2001 amendments to our senior bank facilities.

*Equity in earnings of joint venture.* Equity in earnings from our Leshan joint venture increased $0.6 million to $1.2 million of income in the first quarter of 2002 from $0.6 million in the first quarter of 2001, due primarily to increased capacity and manufacturing efficiencies.

*Gain on sale of investment in joint venture.* In 2001, we had a 50% interest in Semiconductor Miniatures Products Malaysia Sdn. Bhd. ("SMP"). As a part of the joint venture agreement, our joint venture partner, Philips Semiconductors International B.V. ("Philips"), had the right to purchase our interest in SMP between January 2001 and July 2002. On February 1, 2001, effective December 31, 2000, Philips exercised its purchase right, acquiring our 50% interest in SMP. This transaction resulted in proceeds of approximately $20.4 million and a pre-tax gain of approximately $3.1 million in the first quarter of 2001.

*Minority interests.* Minority interests represent the portion of net loss of our two majority-owned Czech subsidiaries attributable to the minority owners of each subsidiary. We consolidate these subsidiaries in our financial statements. Minority interests were $0.2 million in the first quarter of 2002 compared to $0.5 million in the first quarter of 2001.

*Income tax benefit (provision).* The income tax provision was $3.7 million in the first quarter of 2002 compared with an income tax benefit of $22.7 million in the first quarter of 2001. The 2002 provision is attributable to foreign income and withholding taxes. The benefit taken for the first quarter of 2001 was related to deferred taxes recoverable due to the carryback of US net operating

losses. No deferred tax benefit was taken in the first quarter of 2002 for US net operating losses since the likelihood of their utilization in the future is uncertain.

**Liquidity and Capital Resources**

*Sources of Cash.* We require cash to fund our operating expenses, including working capital requirements and outlays for research and development, to make capital expenditures, strategic acquisitions and investments and to pay debt service, including principal and interest and 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 and cash equivalents on hand, cash generated from operations and additional equity offerings.

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

- factors that affect our results of operations and cash flows, including reduced demand for our products resulting from the recent economic slowdown and actions taken by our customers to manage their inventories in line with incoming business, the under-utilization of our manufacturing capacity, our ability to achieve significant reductions in operating expenses, the impact of our restructuring program on our productivity, and our ability to make the substantial 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 or our operational flexibility, including interest rate fluctuations, our ability to maintain compliance with financial covenants and ratios under our existing credit facilities, and other limitations imposed by the covenants under our credit facilities or arising from our substantial leverage that could impair our ability to obtain needed financing on acceptable terms or to respond to business opportunities and developments as they arise.

Historically, our revenues have also been affected by the seasonal trends of the semiconductor and related industries. As a result of these trends, we typically experienced sales increases in the first two quarters of the year and relatively flat sales levels in the third and fourth quarters. However, over the past three years, various events have disrupted this pattern. In 1998, third quarter revenues declined, primarily as a result of the Asian economic crisis. In 1999, third and fourth quarter revenues increased due to the continuing recovery in the semiconductor market. In the fourth quarter of 2000 and throughout 2001, revenues declined due to slowing demand in the semiconductor market and a general economic decline.

*Uses of Cash.* During the quarter ended March 29, 2002, we incurred a net loss of $50.0 million compared with a net loss of $159.4 million for the same period of 2001. (The net loss for the quarter ended March 29, 2002 included $7.1 million for costs associated with the Company’s restructuring efforts. The net loss for the quarter ended March 30, 2001 included a charge of $116.4 million (net of income taxes of $38.8 million) to record the cumulative effect of an accounting change for recognizing revenue on sales to distributors and $38.0 million for restructuring and other costs.) Additionally, the Company’s operating activities utilized $24.4 million of cash for the quarter ended March 29, 2002 compared with cash utilized by operating activities of $80.5 million for the quarter ended March 30, 2001.

At March 29, 2002, the Company had $147.6 million in cash and cash equivalents, net working capital of $205.1 million, long-term debt (including $12.6 due in the next twelve months) of $1,385.4 million and a stockholder’s deficit of $565.6 million. The Company’s long-term debt includes $985.9 million under its senior bank facilities, $260.0 million of its senior subordinated notes due 2009, $117.9 million under its junior subordinated note payable to Motorola, $21.2 million under a note payable to a Japanese bank and a capital lease obligation totaling $0.4 million.

As of March 29, 2002, $11.0 million of our $150 million revolving line of credit was available, reflecting borrowings of $125.0 million and outstanding letters of credit of $14.0 million. Under certain circumstances, our senior bank facilities and the indenture relating to the senior subordinated notes will allow us to incur additional indebtedness, although there can be no assurances that we would be able to borrow on terms acceptable to us.

We used $24.4 million of cash in operating activities during the first quarter of 2002 (compared with cash used in operating activities of $80.5 million during the first quarter of 2001) primarily as a result of our operating loss of $50.0 million offset by non-cash charges of depreciation and amortization ($34.0 million) and non-cash supplemental interest on our senior bank facilities ($7.4 million). Cash used in operations was also effected by changes in our assets and liabilities including cash generated by a reduction in

our inventories ($2.9 million) offset by reductions of cash caused by an increase in receivables ($10.2 million) and a decrease in deferred income on sales to distributors ($21.3 million).

We used $5.4 million of cash in investing activities during the first quarter of 2002 (compared with cash used in investment activities of $36.8 million during the first quarter of 2001) primarily for purchase of property, plant and equipment ($5.6 million in the first quarter of 2002 compared to $51.9 million in the first quarter of 2001) offset by proceeds from the sale of property, plant and equipment ($0.2 million in the first quarter of 2002 compared to $0.3 million in the first quarter of 2001). The first quarter of 2001 also included the proceeds from the sale of the SMP joint venture in the amount of $20.4 million.

This decline, as well as our budgeted capital expenditures for 2002 of $40.0 million, reflect actions taken to improve our cash flow. Our ability to make capital expenditures is limited by the terms of or senior bank facilities; however, we believe that the expenditures permitted thereunder will be sufficient to allow us to maintain and replace our existing facilities and equipment as necessary.

Cash used in financing activities was $2.3 million during the first quarter of 2002 (compared with cash provided by financing activities of $2.4 million during the first quarter of 2001). Cash used in financing activities in the first quarter of 2002 was for repayments on our senior credit facilities ($2.8 million) and our capital lease obligation ($0.7 million), offset by the proceeds from the issuance of common stock under our stock option and employee stock purchase plans ($1.2 million).

*Contractual Obligations.* Our principal outstanding contractual obligations relate to our senior bank facilities, other long-term debt, operating leases, purchase obligations, our pension obligations and our Series A Cumulative Convertible Redeemable Preferred Stock.

At March 29, 2002, our long-term debt includes $985.9 million under our senior bank facilities, $260.0 million of our senior subordinated notes due 2009, $117.9 million under our junior subordinated note payable to Motorola, $21.2 million under a note payable to a Japanese bank and a capital lease obligation totaling $0.4 million.

As discussed in Note 8 “Long-Term Debt” to the Notes to the Consolidated Financial Statements, we were not in compliance with certain of the covenants contained in the agreement relating to our senior bank facilities as of June 29, 2001. As of August 13, 2001, we received a waiver in respect of such noncompliance at June 29, 2001 and in respect of any future noncompliance with such covenants through December 31, 2002. In connection with such waiver, we have amended our senior bank facilities. We were in compliance with the revised covenants outlined above at March 29, 2002, and we believe that, pursuant to our current business plans, we will be able to maintain compliance with the new amended covenants.

As reported in our in our Form 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 29, 2002, we had purchase obligations of $114.6 million, operating lease obligations of $53.0 million, pension plan obligations of $46.8 million and redeemable preferred stock obligations of $188.5 million as of December 31, 2001. Included in the purchase obligations of $114.6 million were foundry purchase commitments of $22 million in 2002 and $3.0 million in 2003 to Motorola, which have since been renegotiated. Our total foundry commitment to Motorola is now $2 million in 2002. The other contractual cash obligations have not significantly changed since year-end.

Our primary future cash needs, both in the short term and in the long term will focus on debt service, capital spending and working capital. Our liquidity needs may also be supplemented with the proceeds from targeted sales of assets. As part of our business strategy, we review acquisition and divestiture opportunities and proposals on a regular basis. Although there can be no assurances, management believes that cash flow from operations coupled with existing cash and cash equivalent balances will be adequate to fund our operating and cash flow needs as well as enable us to maintain compliance with our various debt agreements through March 28, 2003. To the extent that actual results or events differ from our financial projections and business plans our liquidity may be adversely affected.

**Trends, Risks, Uncertainties and Forward-Looking Statements**

This 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. Forward-looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “will,” “intends,” “plans,” or “anticipates,” or by discussions of strategy, plans or intentions. All forward-looking statements in this Form 10-Q are made based on management’s 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 recently incurred substantial operating losses and possible future losses, changes in overall economic conditions, the cyclical nature of the semiconductor industry, changes in demand and average selling prices for our products, changes in inventories at our customers and distributors, technological and product development risks, availability of manufacturing capacity, availability of raw materials, competitors' actions, loss of key customers, order cancellations or reduced bookings, changes in manufacturing yields, restructuring programs and the impact of such programs, control of costs and expenses, inability to reduce manufacturing and selling, general and administrative costs, litigation, risks associated with acquisitions and dispositions, changes in management, risks associated with our substantial leverage and restrictive covenants in our debt instruments (including those relating to the increased cost of servicing our debt and complying with the additional restrictions imposed as a result of amendments to our senior credit facilities), possible future delisting of our common stock by Nasdaq, risks associated with our international operations and terrorist activities both in the United States and internationally, and risks involving environmental or other governmental regulation. Additional factors that could affect our future results or events are described from time to time in our Securities and Exchange Commission reports. See in particular our Form 10-K for the fiscal year ended December 31, 2001 under the caption "Trends, Risks and Uncertainties" and similar disclosures in subsequently filed reports with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information.

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

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

As of March 29, 2002, our long-term debt (including current maturities) totaled $1,385.4 million. We have no interest rate exposure due to rate changes for our fixed rate interest bearing debt, which totaled $399.1 million or our capital lease obligation which totaled $0.4 million. We do have interest rate exposure with respect to the $985.9 million outstanding balance on our senior bank facilities due to its variable LIBOR pricing; however, from time to time, we have entered into interest rate swaps to reduce this interest rate exposure. As of March 29, 2002, we had four interest rate swaps and one interest rate cap covering exposures on $320 million of our variable interest rate debt. A 50 basis point increase in interest rates would result in increased annual interest expense of $3.0 million for the next twelve months.

A majority of our revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, as a multinational business, we also conduct 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.

## PART II: OTHER INFORMATION

**Item 1.** ***Legal Proceedings***

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

During the period July 5, 2001 through July 27, 2001, we were named as a defendant in three shareholder class action lawsuits that were filed in federal court in New York City against us and certain of our current and former officers, current 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 the 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 rescission of the plaintiffs' alleged purchases of our common stock as well as unspecified damages. We understand that various other plaintiffs have filed substantially similar class action cases against over 300 other publicly traded companies and their initial public offering underwriters in New York City, which along with the cases against us have all been transferred to a single federal district judge for purposes of coordinated case management. We believe that the claims against us are without merit, and intend to defend the litigation vigorously.

Plaintiffs recently expressed interest in attempting to settle the claims against the issuer and individual defendants in these cases, including us, and a former federal district judge has been selected by the parties to act as mediator. Settlement discussions are ongoing among the representatives of the issuer defendants, counsel for the plaintiffs, and representatives of the major insurance companies that insure the issuer defendants, but there can be no guarantee that these discussions will result in a settlement of the claims against us. Discussions are also occurring with the underwriter defendants in these cases regarding the possibility of the underwriters paying the issuer defendants' costs and indemnifying the issuers against potential liability, but there can be no guarantee that these discussions will result in any agreement.

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

Not Applicable.

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

Not Applicable.

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

Not Applicable.

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

Not Applicable.

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

(a) Exhibits -

| | |
|---|---|
| 10.1 (a) | Termination Agreement made as of January 29, 2002, between Michael Rohleder and Semiconductor Components Industries, LLC (1) |
| 10.1 (b) | Amendment to Promissory Note dated March 18, 2002, from Michael Rohleder and Roxanne Rohleder to Semiconductor Components Industries, LLC (1) |
| 10.2 | Amendment to Employment Agreement effective as of April 15, 2002, between ON Semiconductor Corporation and Semiconductor Components Industries, LLC and Steve Hanson (1) |

| | |
|---|---|
| 10.3 | Offer Letter dated February 15, 2002, from ON Semiconductor Corporation and Semiconductor Components Industries, LLC to John T. Kurtzweil (1) |
| 10.4 | Employment Agreement effective as of March 28, 2002, between Semiconductor Components Industries, LLC and William Bradford (1) |
| 10.5 | Termination Agreement made as of May 3, 2002, between Semiconductor Components Industries, LLC and Dario Sacomani (1) |
| 10.6 | Offer Letter effective as of April 1, 2002, to Syrus Madavi from ON Semiconductor Corporation (1) |
| 10.7 | Second Amendment to the ON Semiconductor Amended and Restated Executive Deferred Compensation Plan effective January 1, 2002 (1) |
| 10.8 | Employee Incentive Plan, January 2002 (1) |

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

(b) Reports on Form 8-K –

During the first quarter of 2002, we filed three reports on Form 8-K (1) dated January 29, 2002 and filed January 30, 2002, (2) dated March 19, 2002 and filed March 20, 2002, and (3) dated and filed March 29, 2002. The January 29, 2002 report was filed pursuant to Items 5 and 7, reported the resignation of Michael Rohleder as our Senior Vice President and Director of Sales and Marketing, and included as an exhibit a press release dated January 29, 2002 titled “ON Semiconductor Announces Management Change.” The March 19, 2002 report was filed pursuant to Items 5 and 7, reported the appointment of John T. Kurtzweil as our new Senior Vice President, Chief Financial Officer and Treasurer, and included as an exhibit a press release dated March 19, 2002 titled “ON Semiconductor Appoints Chief Financial Officer.” The March 29, 2002 report was filed pursuant to Items 5 and 7, reported the appointment of William R. Bradford as our new Senior Vice President of Sales and Marketing, and included as an exhibit a press release dated March 29, 2002 titled “ON Semiconductor Names Proven Leader as Senior Vice President of Sales and Marketing.”

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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: May 9, 2001
ON SEMICONDUCTOR CORPORATION
(Registrant)

/s/ JOHN T. KURTZWEIL

By: John T. Kurtzweil
Senior Vice President, Chief
Financial Officer
And Treasurer
(Duly Authorized Officer and Principal
Financial Officer of the Registrant)

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**EXHIBIT INDEX**

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(1) Management contract or compensatory plan or arrangement.

Exhibit 10.1(a)

# TERMINATION AGREEMENT

TERMINATION AGREEMENT (this "Agreement") made as of January 29, 2002, by and between Michael Rohleder ("Rohleder") and Semiconductor Components Industries, LLC dba ON Semiconductor, a Delaware corporation, and all of its affiliates (the "Company").

WHEREAS, the Company engaged Rohleder as its Senior Vice President and Director of Sales and Marketing pursuant to an employment agreement dated September 13, 1999 (the "Employment Agreement");

WHEREAS, the Company provided Rohleder and his spouse a loan in the principal amount of $1,000,000 (the "Loan") in accordance with a promissory note dated March 9, 2001 (the "Note"), in connection with Rohleder's and his spouse's residence located at 8217 N. Coconino Road, Paradise Valley, Arizona, and Rohleder and his spouse granted the Company a security interest in said property in the form of a first priority deed of trust (the "Deed of Trust");

WHEREAS, the parties wish to confirm the termination of Rohleder's employment with the Company and set forth their agreement as to the manner in which Rohleder's employment with the Company will be closed out;

NOW, THEREFORE, in consideration of the mutual covenants set forth herein and for other good and valuable consideration, receipt of which is hereby acknowledged, the Company and Rohleder agree as follows:

1. CONFIRMATION OF TERMINATION. The Parties hereby now acknowledge and confirm that the Employment has terminated effective as of January 28, 2002 (the "Termination Date").

2. TERMINATION PAYMENTS AND OTHER CONSIDERATION.

(a) Pursuant to Section 5(a) of the Employment Agreement, no later than thirty (30) days after the Effective Date of this Agreement (as defined in Section 11(c) hereof), the Company shall pay Rohleder Seven Hundred Thousand Dollars ($700,000) which represents two times the sum of (x) the highest rate of Rohleder's annualized Base Salary in effect any time up to and including the Date of Termination (Three Hundred Fifty Thousand Dollars [$350,000]) and (y) Rohleder's Annual Bonus (as defined in Section 2(b) of the Employment Agreement) earned in respect of Fiscal Year 2001 ($0).

(b) In addition to the cash payment described in Section 2(a) above, the Company agrees to the following other consideration ("Other Consideration"):

i. For the six (6) month period immediately following the Termination Date, the Company will pay for continuation of medical benefits for Rohleder and his immediate family under the Company's group medical plan as amended from time to time and for which Rohleder is eligible pursuant to a valid COBRA election timely made by Rohleder without administrative fees. The foregoing notwithstanding, in the event that Rohleder becomes eligible for comparable

medical benefits in connection with new employment during the six (6) month period immediately following the Termination Date, the coverage provided by the Company under this Subsection 2(b)(i) shall terminate immediately. Rohleder agrees that he will notify the Company promptly of his subsequent employment and eligibility for benefits.

ii. For the twelve (12) month period immediately following the Termination Date, the Company will pay for the actual costs (subject to and up to the maximum amount stated below) incurred by Rohleder in order to relocate himself and his immediate family to a new place of primary residence within the United States. The foregoing notwithstanding, in the event that Rohleder is eligible to receive any relocation benefits in connection with new employment during the twelve (12) month period immediately following the Termination Date, the Company's obligation in this Subsection 2(b)(ii) to pay actual relocation costs shall be limited to the actual amount of relocation not covered by a new employer. The Company's total obligation to pay for Rohleder's actual relocation costs under this Section shall not exceed Fifteen Thousand Dollars ($15,000).

iii.Pursuant to Section 2(c) of the Employment Agreement and the SCG Holding Corporation 1999 Founders Stock Option Plan (the "Option Plan") and the Stock Option Grant Agreement dated September 9, 1999 between Rohleder and the Company (the "Grant Agreement"), the Company granted Rohleder an employee stock option (the "Option") with respect to Four Hundred Sixty Six Thousand Six Hundred Sixty Seven (466,667) shares of the Company's common stock (after the Company's reverse stock split of February 17, 2000). As of the Termination Date, fifty percent (50%) of the aggregate number of shares subject to the Option (i.e., Two Hundred Thirty Three Thousand Three Hundred Thirty Three [233,333]) were exercisable pursuant to the Option Plan and Grant Agreement. The Company shall cause an additional twelve and one-half percent (12-1/2%) of the aggregate number of shares subject to the Option (i.e., Fifty Eight Thousand Three Hundred Thirty Three [58,333]) to become exercisable as of the Effective Date of this Agreement. Other than the foregoing acceleration of exercisability with respect to twelve and one-half percent (12-1/2%) of the aggregate number of shares subject to the Option, all other terms and conditions of the Option Plan and the Grant Agreement shall remain in full force and effect.

(c) The Termination Payments and Other Consideration (described in Sections 2(a) and 2(b) above) shall be reduced by any required tax withholdings. The Termination Payments and Other Consideration shall not be taken into account as compensation and no service credit shall be given after the Termination Date for purposes of determining the benefits payable under any other plan, program, agreement or arrangement of the Company. Rohleder acknowledges that, except for the Termination Payments and Other Consideration agreed to herein, he is not entitled to any payment in the nature of severance or termination pay from the Company.

3. PROMISSORY NOTE AND DEED OF TRUST.

Pursuant to the terms of the Loan, provided to Rohleder and his spouse in accordance with the Note, Rohleder previously agreed to pay to the Company the entire amount of Principal Amount (as defined in the Note) plus Interest (as defined in the Note) due under the Note no later than ninety (90) days after the Termination Date. Rohleder and the Company agree to amend the Note to provide that, notwithstanding Rohleder's termination of employment, the Loan shall remain outstanding for the one hundred fifty (150) days immediately following the Termination Date. On the last day of such one hundred fifty (150) day period (or the next business day, if the last day of such one-hundred fifty (150) day period is not a business day), the entire Principal Amount plus Interest (to the extent not yet paid) shall become immediately due and payable. Rohleder hereby agrees to execute and deliver any documents or other materials that the Company determines are necessary to evidence the above-described agreement and to continue without interruption or impairment of the Company's security interest in the Property (as defined in the Note).

4. GENERAL RELEASE AND WAIVER.

(a) ROHLEDER HEREBY RELEASES, REMISES AND ACQUITS THE COMPANY AND ALL OF ITS AFFILIATES, AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, MEMBERS, PARTNERS, SHAREHOLDERS, SUCCESSORS AND ASSIGNS (COLLECTIVELY REFERRED TO HEREIN AS THE "RELEASEES"), JOINTLY AND SEVERALLY, FROM ANY AND ALL CLAIMS, KNOWN OR UNKNOWN, WHICH ROHLEDER OR ROHLEDER'S HEIRS, SUCCESSORS OR ASSIGNS HAVE OR MAY HAVE AGAINST ANY RELEASEE ARISING ON OR PRIOR TO THE DATE OF THIS AGREEMENT AND ANY AND ALL LIABILITY WHICH ANY SUCH RELEASEE MAY HAVE TO ROHLEDER, WHETHER DENOMINATED CLAIMS, DEMANDS, CAUSES OF ACTION, OBLIGATIONS, DAMAGES OR LIABILITIES ARISING FROM ANY AND ALL BASES, HOWEVER DENOMINATED, INCLUDING BUT NOT LIMITED TO THE AGE DISCRIMINATION IN EMPLOYMENT ACT, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE FAMILY AND MEDICAL LEAVE ACT OF 1993, TITLE VII OF THE UNITED STATES CIVIL RIGHTS ACT OF 1964, 42 U.S.C. Section 1981, THE ARIZONA CIVIL RIGHTS ACT, THE ARIZONA EMPLOYMENT PROTECTION ACT, OR ANY OTHER FEDERAL, STATE, OR LOCAL LAW AND ANY WORKERS' COMPENSATION OR DISABILITY CLAIMS UNDER ANY SUCH LAWS. THIS RELEASE INCLUDES BUT IS NOT LIMITED TO CLAIMS ARISING FROM AND DURING ROHLEDER'S EMPLOYMENT RELATIONSHIP WITH THE COMPANY AND ITS AFFILIATES OR AS A RESULT OF THE TERMINATION OF SUCH RELATIONSHIP. ROHLEDER FURTHER AGREES THAT ROHLEDER WILL NOT FILE OR PERMIT TO BE FILED ON ROHLEDER'S BEHALF ANY SUCH CLAIM. NOTWITHSTANDING THE PRECEDING SENTENCE OR ANY OTHER PROVISION OF THIS AGREEMENT, THIS RELEASE IS NOT INTENDED TO INTERFERE WITH ROHLEDER'S RIGHT TO FILE A CHARGE WITH THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION IN CONNECTION WITH ANY CLAIM HE BELIEVES HE MAY HAVE AGAINST ANY OF THE RELEASEES. HOWEVER, BY EXECUTING THIS AGREEMENT, ROHLEDER HEREBY WAIVES THE RIGHT TO RECOVER IN ANY PROCEEDING ROHLEDER MAY BRING BEFORE THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION OR ANY STATE HUMAN RIGHTS COMMISSION OR IN ANY PROCEEDING BROUGHT BY THE

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION OR ANY STATE HUMAN RIGHTS COMMISSION ON ROHLEDER'S BEHALF. THIS RELEASE IS FOR ANY RELIEF, NO MATTER HOW DENOMINATED, INCLUDING, BUT NOT LIMITED TO, INJUNCTIVE RELIEF, WAGES, BACK PAY, FRONT PAY, COMPENSATORY DAMAGES, OR PUNITIVE DAMAGES. THIS RELEASE SHALL NOT APPLY TO ANY OBLIGATION OF THE COMPANY PURSUANT TO THIS AGREEMENT.

(b) ROHLEDER ACKNOWLEDGES THAT THE TERMINATION PAYMENTS HE IS RECEIVING PURSUANT TO SECTION 2(a) OF THIS AGREEMENT, AND OTHER CONSIDERATION DESCRIBED IN SECTION 2(b), IN CONNECTION WITH THE FOREGOING RELEASE ARE IN ADDITION TO ANYTHING OF VALUE TO WHICH ROHLEDER ALREADY IS ENTITLED FROM THE COMPANY.

5. RESTRICTIVE COVENANTS.

Rohleder hereby acknowledges and agrees that he shall be subject to the Restrictive Covenants and provisions of Sections 8, 9, and 10 of the Employment Agreement and such provisions shall remain in full force and effect as if fully stated herein pursuant to their terms.

6. COMPANY PROPERTY, CONFIDENTIAL OR PROPRIETARY INFORMATION AND RESIGNATION LETTER.

Rohleder acknowledges and agrees that he shall return any and all Company property and confidential or proprietary information (in whatever form) to the Company on or before the Effective Date. Upon execution of this Agreement, Rohleder shall sign and return to the Company a resignation letter in the form of the letter attached hereto as EXHIBIT 1.

7. ACKNOWLEDGEMENT OF CONDITIONAL PAYMENTS.

Rohleder acknowledges and agrees that the Termination Payments and Other Consideration provided in Section 2 hereof are conditioned upon and subject to Rohleder complying with his obligations under Section 4, 5 and 6 hereof.

8. NO ADMISSION.

This Agreement does not constitute an admission of liability or wrongdoing of any kind by the Company or its affiliates.

9. HEIRS AND ASSIGNS.

The terms of this Agreement shall be binding on the parties hereto and their respective successors and assigns.

10. GENERAL PROVISIONS.

(a) Integration.

This Agreement and the Restrictive Covenants provided in Sections 8, 9, and 10 of the Employment Agreement constitute the entire understanding between the Company and

Rohleder with respect to the subject matter hereof and supersede all prior understandings, written or oral. The terms of this Agreement may be changed, modified or discharged only by an instrument in writing signed by the parties hereto. A failure by the Company or Rohleder to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. In the event that any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

(b) Choice of Law.

This Agreement shall be construed, enforced and interpreted in ACCORDANCE with and governed by the laws of the State of ARIZONA.

(c) Construction of Agreement. The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has contributed to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties hereto and not in favor or against either party.

(d) Counterparts.

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which counterpart, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement. A facsimile of a signature shall be deemed to be and have the effect of an original signature.

11. KNOWING AND VOLUNTARY WAIVER.

(a) Rohleder acknowledges that, by Rohleder's free and voluntary act of signing below, Rohleder agrees to all of the terms of this Agreement and intends to be legally bound thereby.

(b) Rohleder acknowledges that he has received this Agreement on or before January 29, 2002, and such Agreement was revised by mutual consent of the parties on February 20, 2002. Rohleder understands that he may consider whether to agree to the terms contained herein for a period of twenty-one (21) days after the date he has received this Agreement. The parties have mutually agreed that Rohleder may execute this Agreement by the close of business on February 22, 2002, to acknowledge his understanding of and agreement with the foregoing. However, the Termination Payments and Other Consideration provided herein will be delayed until this Agreement is executed by Rohleder, returned to the Company and becomes effective as provided below. Rohleder acknowledges that he has consulted with an attorney prior to his execution of this Agreement. (See the acknowledgement at the end of this Agreement).

(c) This Agreement will become effective, enforceable and irrevocable on the eighth day after the date on which it is executed by Rohleder (the "Effective Date"). During the seven-day period prior to the Effective Date, Rohleder may revoke his agreement to accept the terms hereof by indicating in writing to the Company his intention to revoke. If Rohleder

exercises his right to revoke hereunder, he shall not have any right to receive any of the benefits provided for herein, and to the extent such payments have already been made, Rohleder agrees that he will immediately reimburse the Company for the amounts of such payment; provided that, if Rohleder exercises such right to revoke, the Employment Agreement and Note shall govern the parties rights and obligations, if any, following such revocation. Rohleder understands and agrees that the written revocation notice referred to in this paragraph must be sent to: ON Semiconductor, Attn: Sonny Cave, General Counsel, Law Department, MD: A700, 5005 E. McDowell Rd., Phoenix, AZ 85008 and must be received by the General Counsel at that address before the end of the seventh day after Rohleder executes this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC

By: /s/ Steve Hanson
------------------------------
Its: CEO
------------------------------
Date: 02/23/2002
------------------------------

/s/ Michael Rohleder
------------------------------
MICHAEL ROHLEDER
Date: 02/23/2002
------------------------------

Acknowledgement

STATE OF ARIZONA )
) ss:
County of Maricopa )

On the 23 day of February, 2002, before me personally came Michael Rohleder who, being by me duly sworn, did depose and say that he resides at 8217 N. Coconino Rd.; and did acknowledge and represent that he has had an opportunity to consult with attorneys and other advisers of his choosing regarding the Termination Agreement attached hereto, that he has reviewed all of the terms of the Termination Agreement and that he fully understands all of its provisions, including, without limitation, the general release and waiver set forth therein.

/s/ Fred S. Bernstein
------------------------------
Notary Public

Date: 02/23/2002
------------------------------

Exhibit 1

January 29, 2002

Mr. George H. Cave
Vice President, General Counsel and Secretary
ON Semiconductor Corporation
5005 E. McDowell Road
Phoenix, Arizona 85008

Dear Mr. Cave:

I hereby voluntarily resign from all directorships, board memberships, officer positions, and committee memberships which I hold with ON Semiconductor Corporation or with any subsidiary or affiliate of ON Semiconductor Corporation, effective January 29, 2002. Positions and memberships from which I voluntarily resign include, but are not limited to, the following:

ON Semiconductor Corporation

Senior Vice President and Director of Sales and Marketing

Semiconductor Components Industries, LLC

Senior Vice President and Director of Sales and Marketing

I also agree to promptly provide any other documents necessary to effectuate the resignation(s) referred to in this letter.

Sincerely,

/s/ Michael Rohleder
- -------------------------------------

Exhibit 10.1(b)

# AMENDMENT TO PROMISSORY NOTE

$1,000,000.00 Phoenix, AZ
5.07% Interest March 18, 2002

WHEREAS, Michael Rohleder and his spouse, Roxanne Rohleder (collectively referred to as "Rohleder") entered into a Promissory Note in the face amount of One Million Dollars ($1,000,000.00) dated March 9, 2001, the proceeds of which were used by Rohleder to purchase a home at 8217 N. Coconino Road, Paradise Valley, Arizona 85253, with Principal and Interest payable to Semiconductor Components Industries, LLC ("SCI, LLC") (the "Original Note"); and

WHEREAS, Michael Rohleder and SCI, LLC entered into a Termination Agreement dated as of January 29, 2002 (the "Agreement") requiring the change in terms of the Original Note as set forth in Section 3 of the Agreement.

NOW THEREFORE, in consideration of the terms and conditions set forth below, the parties agree as follows:

1. All capitalized terms not defined in this Amendment to Promissory Note shall have the meaning defined in the Original Note.

2. Other than the changes set forth below, all terms and conditions of the Original Note shall remain in full force and effect.

3. All Paragraph references made below refer to the paragraph numbers set forth in the Original Note.

4. Amendments:

   A. Paragraph 1 of the Original Note is replaced in its entirety by the following:

   1. Payment/Prepayment.

      (a) This Note may be prepaid at any time, in whole or in part, without penalty or premium. Each partial prepayment shall be applied first to the Interest and then to the Principal Amount. This Note is a full recourse note secured by the Property (as defined in Section 2 below).

      (b) Unless paid sooner, the Principal Amount plus Interest, shall be due and payable to SCI, LLC as follows:

         (i) Notwithstanding Rohleder's termination of employment, the Loan shall remain outstanding for the one hundred fifty (150) days immediately following the Termination Date. On the last day of such one hundred fifty (150) day period (or the next

business day, if the last day of such one-hundred fifty (150) day period is not a business day), the entire Principal Amount plus Interest (to the extent not yet paid) shall become immediately due and payable.

(ii) Rohleder hereby agrees to execute and deliver any documents or other materials that SCI, LLC determines are necessary to evidence the above-described agreement and to continue without interruption or impairment of SCI, LLC's security interest in the Property (as defined in the Original Note).

B. Subparagraph 5(h) of the Original Note shall be modified so that the address for notice to Rohleder shall be 8217 N. Coconino Road, Paradise Valley, Arizona 85253.

/s/ Michael Rohleder
-------------------------------------
Michael Rohleder

/s/ Roxanne Rohleder
-------------------------------------
Roxanne Rohleder

Exhibit 10.2

ON SEMICONDUCTOR CORPORATION
SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC

April 25, 2002

Steve Hanson
5501 E. Roadrunner
Paradise Valley, AZ 85253

Dear Steve:

Given the present difficult industry and the general economic conditions, the relatively short time remaining on your employment agreement dated as of October 27, 1999 (the "Employment Agreement"), and the Board's satisfaction with your service as President and Chief Executive Officer, the Board desires to secure an extension of your period of service to ON Semiconductor Corporation and Semiconductor Components Industries, L.L.C. (collectively, the "Company"). This letter agreement ("Letter Agreement") is intended to implement certain modifications to the Employment Agreement and any stock option grants agreements that are currently outstanding regarding Company stock options. In addition, this Letter Agreement delineates certain other understandings between you and the Company. All defined terms used herein that are not otherwise defined herein shall have the meanings ascribed to such terms in the Employment Agreement.

I. MODIFICATIONS TO EMPLOYMENT AGREEMENT.

(a) The parties hereto hereby agree to amend Section 2(a) to provide for a Base Salary of $425,000 per annum.

(b) The opening paragraph of Section 3 shall be deleted in its entirety and replaced with the following:

The Employment Period has commenced on August 4, 1999 (the "Effective Date") and shall terminate on April 15, 2004 (the "Scheduled Termination Date"), unless terminated sooner pursuant to this Section 3, provided that the Employment Period shall be extended automatically for successive one-year periods beginning on the Scheduled Termination Date (and the Scheduled Termination Date shall be the next succeeding anniversary) unless written notice of an election not to extend the Employment Period is served by either party on the other party at least thirty (30) days prior to the date this Agreement would otherwise expire absent an extension.

(c) Section 5(a) is deleted in its entirety and is replaced with the following:

(a) Without Cause. In the event of the termination of the Executive employment during the Employment Period by the Company without Cause under Section 3(d) (including a deemed termination without Cause as provided in Section 3(f) herein, except as provided below) of this Employment Agreement, in addition to the Executive's accrued but unused vacation and Base Salary through the Date of Termination (to the extent not theretofore paid), all shares underlying the Option shall

become immediately exercisable, and the Executive shall be entitled to a lump-sum payment, payable within thirty (30) days after the Date of Termination, equal to the product of (A) two and (B) the sum of (x) the highest rate of the Executive's annualized Base Salary in effect at any time up to and including the Date of Termination and (y) the higher of (I) the Annual Bonus paid to the Executive in the year immediately preceding the year in which the Date of Termination occurs or (II) the Executive Target Bonus Amount (as defined below) times a fraction, the numerator of which is the number of calendar quarters in the immediately preceding four full calendar quarters in which the Company met or surpassed its financial projections and performance objectives as previously approved by the Board or its designee in its sole discretion, pursuant to the Company's annual bonus plan or program in effect during the relevant period, and the denominator of which is four; provided that the payments and benefits provided herein are subject to and conditioned upon the Executive executing a valid and effective general release and waiver (in the form reasonably acceptable to the Company), waiving all claims the Executive may have against the Company, its successors, assigns, affiliates, executives, officers and directors, and such payments and benefits are subject to and conditioned upon the Executive's compliance with the restrictive covenants provided in Sections 8 and 9 hereof. Except as provided in this Section 5(a) and Sections 2(d), 6 and 9(c), to the extent applicable, the Company shall have no additional obligations under this Agreement. For purposes of this Section 3, "Executive Target Bonus Amount" shall mean seventy-five percent (75%) times the Executive's Base Salary or such higher amount as is designated as the "target" bonus amount by the Board or its designee in its sole discretion, pursuant to the Company's annual bonus plan or program in effect during the relevant period. Notwithstanding the foregoing, in the event of a deemed termination without Cause by reason of the Executive's election to terminate his employment within one year following a Change in Control as provided in Section 3(f)(iii) hereof, the shares underlying the Option shall remain subject to the vesting and exercisability provisions in effect immediately prior to such Change in Control.

(d) In Section 12(a), each occurrence of "Semiconductor Components Industries, LLC" shall be changed to "ON Semiconductor Corporation."

(e) Except as specifically provided herein, all other terms and conditions provided in the Employment Agreement shall remain in full force and effect.

II. STOCK OPTIONS.

(a) Notwithstanding any provision in the Employment Agreement, the SCG Holding Corporation 1999 Founders Stock Option Plan (the "Founder's Plan") or the ON Semiconductor Corporation 2000 Stock Incentive Plan (the "2000 SIP" and together with the Founder's Plan, the "Option Plans") (or any provision in any stock option agreement thereunder in effect between you and the Company) to the contrary, all stock options that are held by you as of the date hereof (the "Current Options") shall vest according to their original terms and shall not accelerate on a change in control (as defined in the Employment Agreement or in the Option Plans); provided that in the event your employment is terminated within the two-year period following a change in control by you for Good Reason (within the meaning of Section 3(f) of the Employment Agreement (other than by reason of your election to terminate your employment following a change in control as provided in Section 3(f)(iii) thereof)) or by the Company without Cause, the

Current Options shall become immediately exercisable. This Section II(a) shall constitute consent for purposes of Section 4.13(a) of the Founders Plan and Section 15.2 of the 2000 SIP.

(b) The provisions of Section II(a) of this Letter Agreement shall apply equally to each stock option granted to you after the date hereof. In the event a stock option agreement evidencing any such future stock option contains a contrary provision, unless such stock option agreement specifically provides that it is intended to supersede this Letter Agreement, this Letter Agreement shall control the terms on which such option may accelerate in the event of a change in control.

(c) Notwithstanding any other provision to the contrary, in the event your employment terminates (i) on account of the Company terminating your employment without Cause under Section 3(d) of the Employment Agreement (including a deemed termination without Cause as provided in Section 3(f) therein) or (ii) as a result of your death or Disability, all current and future stock options that are granted to you (to the extent they are or become exercisable on the date your employment terminates) will remain fully exercisable until the first to occur of (1) the last day of the two (2) year period immediately following such termination of employment and (2) the tenth anniversary of the grant date of such option.

(d) Except as specifically provided herein, all other terms and conditions of the stock option agreements, the Option Plans and the Employment Agreement shall remain in full force and effect.

Please acknowledge your agreement to the foregoing by signing in the appropriate space below. This Letter Agreement shall be effective as of April 15, 2002 provided that it is executed by each of the parties hereto. A facsimile of a signature shall be deemed to be and have the same force and effect as an original.

Sincerely,

ON SEMICONDUCTOR CORPORATION &
SEMICONDUCTOR COMPONENTS
INDUSTRIES, LLC

By: /s/ George H. Cave
---------------------------------------
Its: Vice President and Secretary
---------------------------------------

Agreed and acknowledged to as of the first date written above:

/s/ Steve Hanson
- ----------------------------
STEVE HANSON

February 15, 2002

John Kurtzweil
P.O Box 438
2234 Caballo Ranchero Ct.
Diablo, CA 94528-0438

Dear John:

We are pleased to extend you an offer of employment to join ON Semiconductor.

Employment refers to your employment by ON Semiconductor Corporation ("ON Semi" or "Company"), or its primary operating company, Semiconductor Components Industries, LLC ("SCI, LLC").

This letter confirms our offer of employment to you ("Offer Letter") and sets forth the terms and conditions of that offer. Your offer and this Offer Letter are contingent upon: (1) successful completion of a urinalysis drug test (i.e., negative test result) in accordance with ON's policy on applicant drug testing; (2) successful background investigation and verification of salary and all other information you have submitted to us; (3) providing proof of identity and employment authorization to work in the United States; and (4) approval of ON Semi's Board of Directors.

POSITION

Subject to approval by our Board of Directors your titles will be Senior Vice President, Chief Financial Officer and Treasurer of ON Semi and SCI, LLC. You will report to Steve Hanson, Chief Executive Officer of ON Semiconductor.

BASE SALARY AND VARIABLE PAY BONUS

Your base salary will be $13,846.00 bi-weekly, which equates to $360,000.00 annually.

For 2002 and beyond, you will be eligible for a variable pay bonus based primarily on the performance of ON Semi under a bonus plan for the Company in effect at the time ("Bonus"). At your position, your performance Bonus payout is current "targeted" by SCI, LLC to be 60% of your base salary. This is a target percentage only. Under the Bonus plan, your Bonus could be zero and your actual bonus percentage could be lower or higher than the target depending on several factors. Further, any Bonus would be subject to additional terms and conditions as set forth in the plan document approved by the Board of Directors of ON Semi or its designee, which plan is subject to amendment from time to time and termination at any time. Depending upon whether or not Bonuses are actually paid under the Bonus plan, for fiscal year 2002 (which began January 1, 2002). SCI, LLC expects to make semi-annual Bonus awards.

STOCK OPTION

On or around the date of your commencement of employment, we will request approval by our Board of a stock option grant to you for the purchase of 500,000 shares of ON Semi common stock at an exercise price equal to the "Fair Market Value" of our stock, as determined under our 2001 Stock Incentive Plan ("Plan"). We expect that this stock will generally vest in 25% increments over a four (4) year period beginning on the first anniversary of the grant date, subject to your continued employment by ON Semi. The option grant will be subject to additional terms

and conditions under the Company's Plan and as well as in a separate stock option agreement. Please understand that this offer and its related terms are conditioned on and subject to (1) Board approval; and (2) your employment with ON Semi on the date the Board meets to approve your option grant.

CERTAIN OTHER BENEFITS

Within four weeks of your commencement date with ON Semi, you will receive a hiring bonus of $180,000.00 ("Hiring Bonus"). In addition to the foregoing payment, SCI, LLC will pay you an additional payment ("Gross-Up Payment") in an amount sufficient to pay your federal, state and local income taxes in respect of the Hiring Bonus, plus the federal, state and local income taxes to be incurred by you in calendar year 2002 as a result of such payment, determined based on your highest marginal federal, state and local income tax rates. You agree to cooperate with reasonable requests for information and documentation in order for SCI, LLC to determine the Gross-Up Payment in respect of the Hiring Bonus. Should you voluntarily terminate your employment or be terminated for cause within 12 months of your commencement date, you shall repay to SCI, LLC both the Hiring Bonus and Gross-Up Payment within 30 days of your termination date.

Your offer of employment includes relocation benefits in accordance with SCI, LLC's relocation policy. Additionally, you authorize ON Semi to deduct the appropriate outstanding amount from any final paycheck you may receive. If you have any questions or concerns regarding the details of the plan please do not hesitate to call Dan Lucisano with Cendant Mobility. Dan can be reached at (949) 367-2739.

Further, SCI, LLC will provide you with an executive car allowance of $1,200 per month. In addition to your base salary, SCI, LLC offers a comprehensive benefits package, which includes medical, dental, vision and life insurance coverage. Once eligible, you may also participate in the 401(k) Savings Plan that currently allows you to contribute up to 17% of your eligible earnings on a pre-tax basis, up to the IRS $11,000 maximum. For 2002, SCI, LLC will match your employee contribution on the first 3% of base salary to a maximum of 100%, and may match the next 6% of your employee contribution up to a maximum of 50% depending on the financial performance of ON Semi.

Additionally, ON Semi has an executive deferred comp plan, which allows you to defer certain additional compensation tax free. See the attached plan summary.

You will be eligible to enroll in the ON Semi Employee Stock Purchase Plan. Participation will provide you with an opportunity to share in increases in the ON Semi stock price, as well as enjoy a discount on the initial purchase price. Details of the plan will be explained when you commence employment with ON Semi.

TERMINATION TERMS

In the event your employment with us is terminated by ON Semi without Cause (as defined below), you will receive the payments set forth below; provided, however that the payments provided herein are subject to and conditioned upon: (1) your executing a valid and effective general release and waiver (in the form reasonably acceptable to ON Semi), waiving all claims you may have against the Company, its successors, assigns, affiliates, executives, officers, employees, members, partners, shareholders and directors; (2) your execution of a severance agreement at the time of termination that includes reasonable covenants by you with regard to

confidentiality, nondisparagement, and nonsolicitation/interference/noncompete; and (3) your compliance with the terms and conditions of this Offer Letter. SCI, LLC shall pay severance payments equal to the sum of (i) one (1) year of your annual base salary in effect immediately prior to the your date of termination. Following the effective date of your termination, the severance payments will be paid to you ratably in equal installments over the one (1) year period subsequent to your date of termination in accordance with SCI, LLC's regular payroll practices.

For purposes of this Offer Letter, the term "Cause" shall mean your: (a) breach of any material provision of this Offer Letter; (b) gross negligence in connection with the performance of your duties, obligations or responsibilities to the Company or SCI, LLC, or willful failure to perform your duties, obligations or responsibilities to the Company or SCI, LLC to the best of your ability; (c) engaging in misconduct, fraud or dishonesty involving the business of the Company or SCI, LLC, or any other activity otherwise determined to be materially detrimental or injurious to the Company's or SCI, LLC's reputation; or (d) commission of a felony or a crime involving moral turpitude, each as determined by either the Chief Executive Officer and/or President of the Company in his or her sole and absolute discretion.

You understand and agree that neither the granting of any benefits set forth in this Offer Letter, nor this Offer Letter shall constitute or be evidence of any agreement or understanding, either expressed or implied, on the part of ON Semi or SCI, LLC to employ you for any definite period of time. You are an "at-will" employee, which means that you or ON Semi or SCI, LLC may terminate the employment relationship at any time and for any reason, with or without notice and with or without Cause.

Notwithstanding your at-will status, if you fail to commence employment, voluntarily terminate your employment with ON Semi or SCI, LLC for any reason, or are terminated for cause within 12 months of your commencement date, you will not be entitled to the benefits set forth above, including, without limitation, each of the benefits listed under "Certain Other Benefits" of this Offer Letter. In addition, if you are voluntarily terminated or are terminated for cause within the 12 months of your commencement date, you agree to repay ON within 30 days of your termination date, the Hiring Bonus and Gross-Up Payment set forth above in the "Certain Other Benefits" section. SCI, LLC is under no obligation to authorize, pay, or reimburse you for any expenses associated with your benefits or this Offer Letter until we receive a signed Offer Letter from you.

CODE OF BUSINESS CONDUCT AND DRUG TEST

Enclosed is a copy of ON Semi's Code of Business Conduct ("Code"), which explains ON Semi's principles in this important subject area and the importance of adhering to the highest standards of business conduct. We expect every ON Semi employee to follow these principles and to read and understand the contents of this booklet. When you report to work, you will be required to sign a certificate indicating that you have read and understand the Code and that you commit to follow the guidelines contained in the booklet. You will also be asked to disclose any potential issues that you may have that pertain to these guidelines. We will be discussing the subject matter in greater detail in your orientation session.

ON Semi is committed to providing a drug-free workplace. Therefore, all prospective employees are required to undergo a drug test before becoming an ON Semi employee. By accepting this employment offer you agree to participate in a pre-employment drug-screening test and understand that employment is contingent upon successfully passing such a test. If you require further information, please notify me so that we can address any issues or concerns you may

have. In order to allow sufficient time for processing; please complete the drug-screening test within 3 days of acceptance of this offer.

OTHER

By signing this Offer Letter, you acknowledge that your acceptance of this offer and future performance of services hereunder will not violate any other agreement or obligation that you may have with any of your current or former employers.

As used in this Offer Letter, commencement date shall mean the first day you render compensable services to ON Semi. You further agree and acknowledge that this Offer Letter contains all of the terms of our offer of employment with ON Semi and SCI, LLC and that you have not relied on any oral or written representations that are not explicitly set forth in this Offer Letter in deciding whether to accept this offer. Your commencement date would be on or about March 15, 2002.

OFFER ACCEPTANCE

Upon receiving this offer, please contact me at (602) 244-4636 to confirm your receipt of the offer packet and to discuss any questions that you may have. Your offer is valid through February 22, 2002.

Please indicate your acceptance of this offer by signing below and returning this letter to the undersigned. A second copy of this letter is provided for your personal files.

We are confident ON Semi can offer you a challenging and rewarding job opportunity, and we look forward to you joining our team.

Very truly yours,

/s/ Jim Stoeckmann
- --------------------------------
Jim Stoeckmann
Vice President, Human Resources

I hereby accept this Offer Letter and its conditions and terms:

/s/ John T. Kurtzweil                    Dated: February 17, 2002
- ----------------------------                    -----------------
John Kurtzweil

# EMPLOYMENT AGREEMENT

AGREEMENT, dated as of March 27, 2002 (the "Agreement"), between Semiconductor Components Industries, LLC (the "Company"), with offices at 5005 East McDowell Road, Phoenix, Arizona 85008, and William Bradford (the "Executive").

1. Employment, Duties and Agreements.

(a) The Company hereby agrees to employ the Executive as its Senior Vice President of Sales and Marketing and the Executive hereby accepts such position and agrees to serve the Company in such capacity during the employment period described in Section 3 hereof (the "Employment Period"). The Executive shall report to the Chief Executive Officer (the "CEO") of the Company or his designee and shall have such duties and responsibilities as the CEO or his designee may reasonably determine from time to time as are consistent with Executive's position as Senior Vice President of Sales and Marketing. During the Employment Period, the Executive shall be subject to, and shall act in accordance with, all reasonable instructions and directions of the CEO or his designee and all applicable policies and rules of the Company. The Executive shall be based at the Company's corporate headquarters currently located in Phoenix, Arizona, subject to normal and customary travel for the benefit of and on behalf of the Company in furtherance of the Executive's duties and responsibilities as Senior Vice President of Sales and Marketing.

(b) During the Employment Period, excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote his full working time, energy and attention to the performance of his duties and responsibilities hereunder and shall faithfully and diligently endeavor to promote the business and best interests of the Company.

(c) During the Employment Period, the Executive may not, without the prior written consent of the Company, directly or indirectly, operate, participate in the management, operations or control of, or act as an executive, officer, consultant, agent or representative of, any type of business or service (other than as an executive of the Company), provided that it shall not be a violation of the foregoing for the Executive to manage his personal, financial and legal affairs so long as such activities do not interfere with the performance of his duties and responsibilities to the Company as provided hereunder.

2. Compensation.

(a) As compensation for the agreements made by the Executive herein and the performance by the Executive of his obligations hereunder, during the Employment Period, the Company shall pay the Executive, pursuant to the Company's normal and customary payroll procedures, a base salary at the rate of $320,000 per annum, (the "Base Salary"). The Board of Directors of the Company (the "Board") shall review the Executive's Base Salary from time to time.

(b) In addition to the Base Salary, during the Employment Period, the Executive shall be eligible to participate in the executive bonus program established and approved by the Board (the "Program") and, pursuant to the Program, the Executive may earn an annual bonus (the "Annual Bonus")

based on certain performance criteria with a target of 60% of Base Salary, as determined under the Program, provided that the Executive is actively employed by the Company on the date Annual Bonuses are paid under the Program. Notwithstanding the foregoing, the Executive's Annual Bonus in respect of calendar year 2002 shall be at least equal to $96,000 regardless of whether the performance objectives for calendar year 2002 shall have been met (the "Guaranteed Bonus"), provided that the Executive is actively employed by the Company on the date Annual Bonuses are paid under the Program. For the avoidance of doubt, the Guaranteed Bonus shall reduce any Annual Bonus earned in calendar year 2002 as a result of the Company's achievement of performance objectives under the Program.

(c) As soon as practicable after the Effective Date (as defined in Section 3 herein) (the "Grant Date"), the Company shall cause the ON Semiconductor Corporation (the "Parent") to grant the Executive an option (the "Option") to purchase 600,000 shares of common stock of the Parent at an exercise price equal to the Fair Market Value (as such term is defined in the ON Semiconductor Corporation 2000 Stock Incentive Plan (the "Plan")) as of the Grant Date of a share of common stock of the Parent. Except as specifically provided herein, the Option shall be subject to and governed by the Plan and shall be evidenced by a stock option grant agreement as provided under the Plan. Approximately 25 percent of the Option shall become exercisable on the first twelve (12) month anniversary of the Grant Date; an additional 25 percent of the Option shall become exercisable on each subsequent twelve (12) month anniversary following the first anniversary of the Grant Date until 100 percent of the Option is fully vested and exercisable; provided that the Executive is still employed by the Company on each such date that a portion of the Option is to become exercisable.

(d) (i) As soon as practicable after the Effective Date, but no longer than four weeks after the Effective Date, the Company shall pay to the Executive, in a lump sum, a hiring bonus of $250,000 (the "Hiring Bonus"). In addition to the Hiring Bonus, the Company shall pay to the Executive an additional payment (the "Hiring Bonus Gross-Up Payment") in an amount sufficient to pay the Executive's federal, state and local income taxes in respect of the Hiring Bonus, as well as the federal, state and local income taxes incurred by the Executive for the calendar year 2002 as a result of the Hiring Bonus Gross-Up Payment, to be determined based upon the Executive's highest marginal federal, state and local income tax rates. Notwithstanding the foregoing, if the Executive's employment with the Company is terminated by the Company for Cause or by the Executive for other than Good Reason any time during the twelve (12) month period following the Effective Date, the Executive shall repay to the Company both the Hiring Bonus and Hiring Bonus Gross-Up Payment within thirty (30) days after the Date of Termination (as defined in Section 4(b) herein).

(ii) As soon as practicable following the one-year anniversary of the Effective Date, the Company shall pay to the Executive, in a lump sum, a stay bonus of $50,000 (the "Stay Bonus"), provided the Executive is actively employed by the Company on such date. In addition to the Stay Bonus, the Company shall pay to the Executive an additional payment (the "Stay Bonus Gross-Up Payment") in an amount sufficient to pay the Executive's federal, state and local income taxes in respect of the Stay Bonus, as well as the federal, state and local income taxes incurred by the Executive for the calendar year 2003 as a result of the Stay Bonus Gross-Up Payment, to be determined based upon the Executive's highest marginal federal, state and local income tax rates. Notwithstanding the foregoing, if the Executive's employment with the Company is terminated by the Company for Cause or by the Executive for other than Good Reason after the Stay Bonus is paid, but prior to the two-year anniversary of the Effective Date, the Executive shall repay to the Company both the Stay Bonus and Stay Bonus Gross-Up Payment within thirty (30) days after the Date of Termination.

(iii) The Executive shall cooperate with reasonable requests for information and documentation made by the Company in order for the Company to determine both the Hiring Bonus Gross-Up Payment and Stay Bonus Gross-Up Payment. Furthermore, the Executive hereby authorizes the Company to, and the Company has the right without any further action to, withhold from or reduce any payments due the Executive in order to collect any amounts that the Executive is required to return to the Company pursuant to this Agreement.

(e) During the Employment Period: (i) except as specifically provided herein, the Executive shall be entitled to participate in all savings and retirement plans, practices, policies and programs of the Company which are made available generally to other senior executive officers of the Company, and (ii) except as specifically provided herein, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all welfare benefit plans, practices, policies and programs provided by the Company which are made available generally to other senior executive officers of the Company (for the avoidance of doubt, such plans, practices, policies or programs shall not include any plan, practice, policy or program which provides benefits in the nature of severance or continuation pay).

(f) During the Employment Period, the Company shall provide the Executive with a car allowance of $1,200 per month.

(g) During the Employment Period, the Executive shall be entitled to three (3) weeks of paid vacation time for calendar year 2002 and a minimum of four (4) weeks paid vacation time in each subsequent year.

(h) (i) The Company shall reimburse the Executive for reasonable relocation expenses (the "Relocation Reimbursements") incurred by the Executive in connection with the relocation of the Executive and his immediate family to Phoenix, Arizona from Brussels, Belgium as well as relocating his personal possessions from his home in Atlanta, Georgia, which shall include, but not be limited to, reimbursement for all travel (business class), housing and incidental expenses incurred by the Executive and his family for (A) one trip to Phoenix for the Executive and his family to locate a primary residence; (B) one additional trip to Phoenix for the Executive or his spouse to locate a primary residence; (C) one trip for the Executive and his family to wrap up their affairs in Atlanta, Georgia; (D) a reasonable temporary living allowance/reimbursement for Belgium, Atlanta and Phoenix, as the case may be (not to exceed $4,000 per month in the aggregate) for three (3) months commencing on the Effective Date while the Executive and his family find a permanent residence in, and transition to, Phoenix; (E) a reasonable temporary living reimbursement (not to exceed $2,500 per month) for two (2) months commencing on the Effective Date solely for the Executive's expenses in Phoenix as he begins his duties for the Company; (F) reasonable closing costs for the Executive's primary residence in Phoenix; and (G) certain termination charges, forfeitures, fees, penalties and expenses incurred by the Executive in Belgium associated with his relocation; provided that the Relocation Reimbursements shall not exceed $200,000.

(ii) In addition to the Relocation Reimbursements provided above, on or before the date that is ninety (90) days after the Effective Date, the Company shall purchase the Executive's Atlanta, Georgia residence (the "Residence") for $900,000 (the "Purchase Price"); provided that if the average price determined based on three (3) independent appraisals of the Residence (the "Appraised Value") is less than $550,000, then the Purchase Price will be reduced by an amount equal to the excess of $550,000 over the Appraised Value. In the event that the Executive's employment with the Company is terminated by the Company for Cause or by the Executive for other than Good Reason within the

twenty-four (24) month period following the Effective Date, the Executive shall repay to the Company the excess of the Purchase Price over the Appraised Value.

(iii) Notwithstanding the foregoing, the Company shall only be obligated under Section 2(h)(ii) above if the following conditions are met; (1) the Company completes due diligence procedures to its reasonable satisfaction, (2) the Company obtains all necessary consents and approvals, (3) the Executive cooperates with respect to the sale of the Residence, including, but without limitation, the Executive's causing the Residence to be available for viewing and inspections by real estate agents, engineers and potential purchasers during reasonable hours, including, but not limited to, weekends and Executive's execution and delivery of any documents or other materials that the Company determines are reasonably necessary to evidence the purchase of the Residence and the release of any existing security interest in the Residence and, with respect to the Company's obligations under Section 2(h)(i) and (ii) (4) the Executive shall provide all reasonable documentation of expenses as reasonably requested by the Company and to otherwise cooperate with reasonable requests of the Company in respect of the Relocation Reimbursements provided herein.

(i) During the Employment Period, the Executive will be eligible to participate in the Company's current financial and tax planning counseling program for a three (3) year period commencing on the Effective Date.

(j) The Company shall reimburse the Executive for all reasonable business expenses upon the presentation of statements of such expenses in accordance with the Company's policies and procedures now in force or as such policies and procedures may be modified with respect to all senior executive officers of the Company.

3. Employment Period.

The Company shall employ Executive on the terms and subject to the conditions of this Agreement commencing on March 28, 2002 (the "Effective Date"). Executive's employment may be terminated by the Company or by the Executive at any time for any reason or no reason at all. The period during which Executive is employed by the Company pursuant to this Agreement shall be referred to as the "Employment Period." The Executive's employment hereunder may be terminated during the Employment Period upon the earliest to occur of the following events (at which time the Employment Period shall be terminated):

(a) Death. The Executive's employment hereunder shall terminate upon his death.

(b) Disability. The Company shall be entitled to terminate the Executive's employment hereunder for "Disability" if, as a result of the Executive's incapacity due to physical or mental illness or injury, the Executive shall have been unable to perform his duties hereunder for a period of ninety (90) consecutive days, and within thirty (30) days after Notice of Termination (as defined in Section 4 below) for Disability is given following such 90-day period the Executive shall not have returned to the performance of his duties on a full-time basis.

(c) Cause. The Company may terminate the Executive's employment hereunder for Cause. For purposes of this Agreement, the term "Cause" shall mean: (i) a material breach by the Executive of this Agreement; (ii) the failure by the Executive to reasonably and substantially perform his duties hereunder (other than as a result of physical or mental illness or injury); (iii) the Executive's willful

misconduct or gross negligence which is materially injurious to the Company; or (iv) the commission by the Executive of a felony or other serious crime involving moral turpitude. In the case of clauses (i) and (ii) above, the Company shall provide notice to the Executive indicating in reasonable detail the events or circumstances that it believes constitute Cause hereunder and, if such breach or failure is reasonably susceptible to cure, provide the Executive with a reasonable period of time (not to exceed thirty (30) days) to cure such breach or failure. If, subsequent to the Executive's termination of employment hereunder for other than Cause, it is determined in good faith by the Board that the Executive's employment could have been terminated for Cause, the Executive's employment shall, at the election of the Board, be deemed to have been terminated for Cause retroactively to the date the events giving rise to Cause occurred.

(d) Without Cause. The Company may terminate the Executive's employment hereunder during the Employment Period without Cause.

(e) Voluntarily. The Executive may voluntarily terminate his employment hereunder (other than for Good Reason), provided that the Executive provides the Company with notice of his intent to terminate his employment at least three months in advance of the Date of Termination (as defined in Section 4 below).

(f) For Good Reason. The Executive may terminate his employment hereunder for Good Reason and any such termination shall be deemed a termination by the Company without Cause. For purposes of this Agreement, "Good Reason" shall mean (i) a material breach of this Agreement by the Company, (ii) requiring the Executive to report to a person other than (1) the CEO, (2) the executive chairman or other executive position reasonably determined by the Company to rank above or pari passu with the CEO or (3) in the absence of a CEO, any person acting in the capacity of a CEO, (iii) reducing the Executive's salary while at the same time not proportionately reducing the salaries of the other executive officers of the Company, (iv) requiring the Executive to relocate away from the Phoenix area which such relocation is not in connection with a relocation of the Company's headquarter offices, or (v) a material and continued dimunition of the Executive's duties and responsibilities hereunder; provided that in either (i), (ii), (iii), (iv) or (v) above, the Executive shall notify the Company within thirty (30) days after the event or events which the Executive believes constitute Good Reason hereunder and shall describe in such notice in reasonable detail such event or events and provide the Company a reasonable time to cure such breach or dimunition (not to exceed thirty (30) days after delivery of such notice).

4. Termination Procedure.

(a) Notice of Termination. Any termination of the Executive's employment by the Company or by the Executive during the Employment Period (other than a termination on account of the death of Executive) shall be communicated by written "Notice of Termination" to the other party hereto in accordance with Section 12(a).

(b) Date of Termination. "Date of Termination" shall mean (i) if the Executive's employment is terminated by his death, the date of his death, (ii) if the Executive's employment is terminated pursuant to Section 3(b), thirty (30) days after Notice of Termination, provided that the Executive shall not have returned to the performance of his duties hereunder on a full-time basis within such thirty (30) day period, (iii) if the Executive voluntarily terminates his employment, the date specified in the notice given pursuant to Section 3(e) herein which shall not be less than three months after the Notice of Termination is delivered to the Company, (iv) if the Executive terminates his employment for Good Reason pursuant to Section 3(f) herein, thirty (30) days after Notice of Termination, and (v) if the

Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or any later date (within thirty (30) days, or any alternative time period agreed upon by the parties, after the giving of such notice) set forth in such Notice of Termination.

5. Termination Payments.

(a) Without Cause. In the event of the termination of the Executive's employment during the Employment Period by the Company without Cause (including a deemed termination without Cause as provided in Section 3(f) herein), in addition to the Executive's accrued but unused vacation and Base Salary through the Date of Termination (to the extent not theretofore paid) the Executive shall be entitled to twelve equal monthly payments commencing within thirty (30) days after the Date of Termination equal to the quotient obtained by dividing the (i) sum of (A) the highest rate of the Executive's annualized Base Salary in effect at any time up to and including the Date of Termination and (B) the Annual Bonus (described in Section 2(b) hereof) earned by the Executive in the year immediately preceding the Date of Termination, by (ii) twelve. In addition, in the event of a termination by the Company without Cause, if the Executive elects to continue the Company's group health plans pursuant to his rights under COBRA, the Company shall pay the Executive's COBRA continuation premiums until the earlier of (i) the date the Executive receives group health benefits from another employer or (ii) the one-year anniversary of the Date of Termination. Notwithstanding the foregoing, the payments and benefits provided herein are subject to and conditioned upon the Executive executing a general release and waiver (in the form reasonably acceptable to the Company), waiving all claims the Executive may have against the Company, its successors, assigns, affiliates, executives, officers and directors, and such payments are subject to and conditioned upon the Executive's compliance with the Restrictive Covenants provided in Sections 8 and 9 hereof. Except as provided in this Section 5(a), the Company shall have no additional obligations under this Agreement.

(b) Cause, Disability, Death or Voluntarily other than for Good Reason. If the Executive's employment is terminated during the Employment Period by (i) the Company for Cause, (ii) voluntarily by the Executive other than for Good Reason, or (iii) as a result of the Executive's death or Disability, the Company shall pay the Executive or the Executive's estate, as the case may be, within thirty (30) days following the Date of Termination the Executive's accrued but unused vacation and his Base Salary through the Date of Termination (to the extent not theretofore paid). Except as provided in this Section 5(b) and Section 9(c) below, the Company shall have no additional obligations under this Agreement.

6. Employment Termination in Connection with a Change in Control.

(a) In the event the Company terminates the Executive's employment without Cause (including a deemed termination without Cause as provided in Section 3(f) herein) within two years following a Change in Control (as defined below), then, in addition to all other benefits provided to the Executive under Section 5(a) of this Agreement, the Option granted pursuant to Section 2(c) herein shall become immediately exercisable.

(b) For purposes of this Agreement, a Change in Control shall have the meaning set forth in the Plan.

7. Legal Fees.

In the event of any contest or dispute between the Company and the Executive with respect to this Agreement or the Executive's employment hereunder, each of the parties shall be responsible for their respective legal fees and expenses.

8. Non-Solicitation.

During the Employment Period and for two (2) years thereafter, the Executive hereby agrees not to, directly or indirectly, solicit or hire or assist any other person or entity in soliciting or hiring any employee of the Parent, the Company or any of their subsidiaries to perform services for any entity (other than the Parent, the Company or their subsidiaries), or attempt to induce any such employee to leave the employ of the Parent, the Company or their subsidiaries.

9. Confidentiality; Non-Disclosure; Non-Disparagement.

(a) During the Employment Period and thereafter, the Executive shall hold in strict confidence any proprietary or Confidential Information related to the Parent, the Company and their affiliates. For purposes of this Agreement, the term "Confidential Information" shall mean all information of the Parent, the Company or any of their affiliates (in whatever form) which is not generally known to the public, including without limitation any inventions, processes, methods of distribution, customer lists or customers' or the Company's trade secrets.

(b) Upon the termination of the Employment Period, the Executive shall not take, without the prior written consent of the Company, any drawing, blueprint, specification or other document (in whatever form) of the Parent, the Company or their affiliates, which is of a confidential nature relating to the Parent, the Company or their affiliates, or, without limitation, relating to any of their methods of distribution, or any description of any formulas or secret processes and will return any such information (in whatever form) then in his possession.

(c) The Executive shall not defame or disparage the Parent, the Company, their affiliates and their officers, directors, members or executives. The Executive hereby agrees to cooperate with the Company in refuting any defamatory or disparaging remarks by any third party made in respect of the Parent, the Company, their affiliates or their directors, members, officers or executives.

10. Injunctive Relief.

It is impossible to measure in money the damages that will accrue to the Company in the event that the Executive breaches any of the restrictive covenants provided in Sections 8 and 9 hereof. In the event that the Executive breaches any such restrictive covenant, the Company shall be entitled to an injunction restraining the Executive from violating such restrictive covenant (without posting any bond or other security). If the Company shall institute any action or proceeding to enforce any such restrictive covenant, the Executive hereby waives the claim or defense that the Company has an adequate remedy at law and agrees not to assert in any such action or proceeding the claim or defense that the Company has an adequate remedy at law. The foregoing shall not prejudice the Company's right to require the Executive to account for and pay over to the Company, and the Executive hereby agrees to account for and pay over, the compensation, profits, monies, accruals or other benefits derived or received by the Executive as a result of any transaction constituting a breach of any of the restrictive covenants provided in Sections 8 or 9 hereof.

11. Representations.

(a) The parties hereto hereby represent that they each have the authority to enter into this Agreement, and the Executive hereby represents to the Company that the execution of, and performance of duties under, this Agreement shall not constitute a breach of or otherwise violate any other agreement to which the Executive is a party.

(b) The Executive hereby represents to the Company that he will not utilize or disclose any confidential information obtained by the Executive in connection with his former employment with respect to this duties and responsibilities hereunder.

12. Miscellaneous.

(a) Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and shall be deemed to be given when delivered personally or four days after it is mailed by registered or certified mail, postage prepaid, return receipt requested or one day after it is sent by a reputable overnight courier service and, in each case, addressed as follows (or if it is sent through any other method agreed upon by the parties):

If to the Company:

Semiconductor Components Industries, LLC
5005 East McDowell Road
Phoenix, Arizona  85008
Attention:  General Counsel

with a copy to:

Paul Shim
Cleary, Gottlieb, Steen & Hamilton
One Liberty Plaza
New York, NY 10006

If to the Executive:

William Bradford
Semiconductor Components Industries, LLC
5005 East McDowell Road
Phoenix, Arizona 85008

or to such other address as any party hereto may designate by notice to the others.

(b) This Agreement shall constitute the entire agreement among the parties hereto with respect to the Executive's employment hereunder, and supersedes and is in full substitution for any and all prior understandings or agreements with respect to the Executive's employment (it being understood that any stock options granted to the Executive shall be governed by the relevant option plan and related stock option grant agreement and any other related documents).

(c) This Agreement may be amended only by an instrument in writing signed by the parties hereto, and any provision hereof may be waived only by an instrument in writing signed by the party or parties against whom or which enforcement of such waiver is sought. The failure of any party hereto at any time to require the performance by any other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by any party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(d) The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has had the opportunity to contribute to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties hereto and not in favor or against either party.

(e) (i) This Agreement is binding on and is for the benefit of the parties hereto and their respective successors, assigns, heirs, executors, administrators and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Executive.

(ii) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in the Agreement, "the Company" shall mean both the Company as defined above and any such successor that assumes this Agreement, by operation of law or otherwise.

(f) Any provision of this Agreement (or portion thereof) which is deemed invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction and subject to this Section, be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions thereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal, or unenforceable in any other jurisdiction. If any covenant should be deemed invalid, illegal or unenforceable because its scope is considered excessive, such covenant shall be modified so that the scope of the covenant is reduced only to the minimum extent necessary to render the modified covenant valid, legal and enforceable. No waiver of any provision or violation of this Agreement by Company shall be implied by Company's forbearance or failure to take action.

(g) The Company may withhold from any amounts payable to the Executive hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation, (it being understood, that the Executive shall be responsible for payment of all taxes in respect of the payments and benefits provided herein).

(h) Except as specifically provided in Sections 2(d) and 2(h), the payments and other consideration to the Executive under this Agreement shall be made without right of offset.

(i) This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona without reference to its principles of conflicts of law.

(j) This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(k) The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of any provision hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC

/s/ James Stoeckmann 3/27/02

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Name: James Stoeckmann
Title: Vice President - HR

/s/ William Bradford 3/27/02

---

William Bradford

Exhibit 10.5

# TERMINATION AGREEMENT

TERMINATION AGREEMENT (this "Agreement") made as of May 3, 2002, by and between Dario Sacomani ("Sacomani") and Semiconductor Components Industries, LLC dba ON Semiconductor, a Delaware corporation, and all of its affiliates ("Company").

WHEREAS, the Company engaged Sacomani as its Senior Vice President, Chief Financial Officer and Treasurer pursuant to an employment agreement dated as of October 27, 1999, and amended ("Amendment") such agreement on November 28, 2001 ("Employment Agreement");

WHEREAS, all capitalized terms not otherwise defined in this Agreement shall have the meanings ascribed to such terms in the Employment Agreement;

WHEREAS, the parties wish to confirm the termination of Sacomani's employment with the Company and set forth their agreement as to the manner in which Sacomani's employment with the Company will be closed out;

NOW, THEREFORE, in consideration of the mutual covenants set forth herein and for other good and valuable consideration, receipt of which is hereby acknowledged, the Company and Sacomani agree as follows:

1. CONFIRMATION OF TERMINATION. The Parties hereby now acknowledge and confirm that the employment and related Employment Period has terminated effective as of May 1, 2002 ("Termination Date").

2. TERMINATION PAYMENTS AND OTHER CONSIDERATION.

(a) No later than thirty (30) days after the Effective Date of this Agreement (as defined in Section 10(c) hereof), the Company shall pay Sacomani a total of Eight Hundred Ninety Six Thousand Seventy Four Dollars ($896,074.00) [the sum of $520,000.00 plus $376,074.00] consisting of the follows:

(i) Pursuant to Section 5(a) of the Employment Agreement, Five Hundred Twenty Thousand Dollars ($520,000.00) which represents two (2) times the highest rate of Sacomani's annualized Base Salary in effect any time up to and including the Termination Date (Two Hundred Sixty Thousand Dollars [$260,000.00]); plus

(ii) Three Hundred Seventy Six Thousand Seventy Four Dollars ($376,074.00) which represents two (2) times Sacomani's annual bonus under the Company's former Key Contributors Incentive Plan (KCIP) earned in respect of Fiscal Year 2000 and paid in 2001 (One Hundred Eighty Eight Thousand Thirty Seven Dollars [$188,037.00]).

(b) In addition to the cash payments described in Section 2(a) above, the Company agrees to the following other consideration ("Other Consideration"):

(i) Pursuant to Section 5(a) of the Employment Agreement, all shares underlying the Option (as defined in the Employment Agreement) shall become immediately exercisable as of the Termination Date. The Option was granted on September 9, 1999 under the 1999 Founders Stock Option Plan ("Option Plan") and related stock option grant agreement with respect to Four Hundred Thirty Three Thousand Three Hundred Thirty Three (433,333) shares of the Company's common stock (after the Company's reverse stock split of February 17, 2000).

(ii) Pursuant to Section II(c) of the Amendment, all current stock options that are granted to Sacomani (to the extent they are or become exercisable on the Termination Date) will remain fully exercisable until the first to occur of (A) the last day of the two (2) year period immediately following the Termination Date, and (B) the tenth anniversary of the grant date of such option.

(iii) Through December 31, 2002, the Company will pay the total cost for the continuation of medical benefits for Sacomani and his immediate family under the Company's group medical plan as amended from time to time and for which Sacomani is eligible pursuant to a valid COBRA election timely made by Sacomani. The foregoing notwithstanding, in the event that Sacomani becomes eligible for comparable medical benefits in connection with new employment during the period from the Termination Date through December 31, 2002, the coverage provided by the Company under this Subsection 2(b)(iii) shall terminate immediately. Sacomani agrees that he will notify the Company promptly of his subsequent employment and eligibility for benefits.

(c) The Termination Payments and Other Consideration (described in Sections 2(a) and 2(b) above) shall be reduced by any required tax withholdings. The Termination Payments and Other Consideration shall not be taken into account as compensation and no service credit shall be given after the Termination Date for purposes of determining the benefits payable under any other plan, program, agreement or arrangement of the Company. Sacomani acknowledges that, except for the Termination Payments and Other Consideration agreed to herein, he is not entitled to any payment in the nature of severance or termination pay from the Company. For the avoidance of doubt, this Agreement does not effect the Company's obligations under the Company's Executive Deferred Compensation Plan, under which Sacomani has an accrued balance as of May 1, 2002 of $107,208.06.

3. GENERAL RELEASE AND WAIVER.

(a) SACOMANI HEREBY RELEASES, REMISES AND ACQUITS THE COMPANY AND ALL OF ITS AFFILIATES, AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, MEMBERS, PARTNERS, SHAREHOLDERS, SUCCESSORS AND ASSIGNS (COLLECTIVELY REFERRED TO HEREIN AS "RELEASEES"), JOINTLY AND SEVERALLY, FROM ANY AND ALL CLAIMS, KNOWN OR UNKNOWN, WHICH SACOMANI OR SACOMANI'S HEIRS, SUCCESSORS OR ASSIGNS HAVE OR MAY HAVE AGAINST ANY RELEASEE ARISING ON OR PRIOR TO THE TERMINATION DATE, ANY AND ALL LIABILITY WHICH ANY SUCH RELEASEE MAY HAVE TO SACOMANI, WHETHER DENOMINATED CLAIMS, DEMANDS, CAUSES OF ACTION, OBLIGATIONS, DAMAGES OR LIABILITIES ARISING FROM ANY AND ALL BASES, HOWEVER DENOMINATED, INCLUDING BUT NOT LIMITED TO THE AGE

DISCRIMINATION IN EMPLOYMENT ACT, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE FAMILY AND MEDICAL LEAVE ACT OF 1993, TITLE VII OF THE UNITED STATES CIVIL RIGHTS ACT OF 1964, 42 U.S.C. Section 1981, THE ARIZONA CIVIL RIGHTS ACT, THE ARIZONA EMPLOYMENT PROTECTION ACT, OR ANY OTHER FEDERAL, STATE, OR LOCAL LAW AND ANY WORKERS' COMPENSATION OR DISABILITY CLAIMS UNDER ANY SUCH LAWS. THIS RELEASE INCLUDES BUT IS NOT LIMITED TO CLAIMS ARISING FROM AND DURING SACOMANI'S EMPLOYMENT RELATIONSHIP WITH THE COMPANY AND ITS AFFILIATES OR AS A RESULT OF THE TERMINATION OF SUCH RELATIONSHIP. SACOMANI FURTHER AGREES THAT SACOMANI WILL NOT FILE OR PERMIT TO BE FILED ON SACOMANI'S BEHALF ANY SUCH CLAIM. NOTWITHSTANDING THE PRECEDING SENTENCE OR ANY OTHER PROVISION OF THIS AGREEMENT, THIS RELEASE IS NOT INTENDED TO INTERFERE WITH SACOMANI'S RIGHT TO FILE A CHARGE WITH THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION IN CONNECTION WITH ANY CLAIM HE BELIEVES HE MAY HAVE AGAINST ANY OF THE RELEASEES. HOWEVER, BY EXECUTING THIS AGREEMENT, SACOMANI HEREBY WAIVES THE RIGHT TO RECOVER IN ANY PROCEEDING SACOMANI MAY BRING BEFORE THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION OR ANY STATE HUMAN RIGHTS COMMISSION OR IN ANY PROCEEDING BROUGHT BY THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION OR ANY STATE HUMAN RIGHTS COMMISSION ON SACOMANI'S BEHALF. THIS RELEASE IS FOR ANY RELIEF, NO MATTER HOW DENOMINATED, INCLUDING, BUT NOT LIMITED TO, INJUNCTIVE RELIEF, WAGES, BACK PAY, FRONT PAY, COMPENSATORY DAMAGES, OR PUNITIVE DAMAGES. THIS RELEASE SHALL NOT APPLY TO ANY OBLIGATION OF THE COMPANY PURSUANT TO THIS AGREEMENT.

(b) SACOMANI ACKNOWLEDGES THAT THE TERMINATION PAYMENTS HE IS RECEIVING PURSUANT TO SECTION 2(a) OF THIS AGREEMENT, AND OTHER CONSIDERATION DESCRIBED IN SECTION 2(b), IN CONNECTION WITH THE FOREGOING RELEASE ARE IN ADDITION TO ANYTHING OF VALUE TO WHICH SACOMANI ALREADY IS ENTITLED FROM THE COMPANY.

(c) The Company's senior executives are not currently aware of any facts or circumstances that would give rise to a claim by the Company against Sacomani. However, the Company is not waiving (and the foregoing representation should not be construed as a waiver of) any claim against Sacomani in the event the Company or its senior executives learn of any facts or circumstances (whether occurring prior to or after the date hereof) that give rise to any such claim against Sacomani and in the event the Company learns of any such facts or circumstances this Agreement shall not be a bar to any such claim.

4. RESTRICTIVE COVENANTS.

Sacomani hereby acknowledges and agrees that he shall be subject to the Restrictive Covenants and provisions of Sections 8, 9 and 10 of the Employment Agreement and such provisions shall remain in full force and effect as if fully stated herein pursuant to their terms.

5. COMPANY PROPERTY, AND CONFIDENTIAL OR PROPRIETARY INFORMATION.

Sacomani may retain his mobile telephone, wireless pager and portable computer (IBM Thinkpad Model T-20, Serial #78-D3184), in each case, at his own cost beginning June 1, 2002, provided that he remove all confidential and proprietary information in a manner reasonably satisfactory to the Company. In addition, Sacomani shall return any and all other Company property and confidential or proprietary information (in whatever form) to the Company on or before the Effective Date.

6. ACKNOWLEDGEMENT OF CONDITIONAL PAYMENTS.

Sacomani acknowledges and agrees that the Termination Payments and Other Consideration provided in Section 2 hereof are conditioned upon and subject to Sacomani complying with his obligations under Section 3, 4 and 5 hereof.

7. NO ADMISSION.

This Agreement does not constitute an admission of liability or wrongdoing of any kind by the Company or its affiliates.

8. HEIRS AND ASSIGNS.

The terms of this Agreement shall be binding on the parties hereto and their respective successors and assigns.

9. GENERAL PROVISIONS.

(a) Integration.

This Agreement and the Restrictive Covenants provided in Sections 8, 9 and 10 of the Employment Agreement constitute the entire understanding between the Company and Sacomani with respect to the subject matter hereof and supersede all prior understandings, written or oral. The terms of this Agreement may be changed, modified or discharged only by an instrument in writing signed by the parties hereto. A failure by the Company or Sacomani to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. In the event that any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

(b) Choice of Law.

This Agreement shall be construed, enforced and interpreted in ACCORDANCE with and governed by the laws of the State of ARIZONA.

(c) Construction of Agreement. The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has contributed to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties hereto and not in favor or against either party.

(d) Counterparts.

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which counterpart, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement. A facsimile of a signature shall be deemed to be and have the effect of an original signature.

11. KNOWING AND VOLUNTARY WAIVER.

(a) Sacomani acknowledges that, by Sacomani's free and voluntary act of signing below, Sacomani agrees to all of the terms of this Agreement and intends to be legally bound thereby.

(b) Sacomani acknowledges that he has received this Agreement on or before April 15, 2002 and then received a new version of this Agreement containing amendments that were mutually agreed to by the parties on May 3, 2002. Sacomani understands that he may consider whether to agree to the terms contained herein for a period of twenty-one (21) days after the date he has received this Agreement. The parties have mutually agreed that Sacomani may execute this Agreement after the Termination Date and no later than the close of business on May 24, 2002, to acknowledge his understanding of and agreement with the foregoing. However, the Termination Payments and Other Consideration provided herein will be delayed until this Agreement is executed by Sacomani, returned to the Company and becomes effective as provided below. Sacomani acknowledges that he has consulted with an attorney prior to his execution of this Agreement. (See the acknowledgement at the end of this Agreement).

(c) This Agreement will become effective, enforceable and irrevocable on the eighth day after the date on which it is executed by Sacomani ("Effective Date"). During the seven-day period prior to the Effective Date, Sacomani may revoke his agreement to accept the terms hereof by indicating in writing to the Company his intention to revoke. If Sacomani exercises his right to revoke hereunder, he shall not have any right to receive any of the benefits provided for herein, and to the extent such payments have already been made, Sacomani agrees that he will immediately reimburse the Company for the amounts of such payment. Sacomani understands and agrees that the written revocation notice referred to in this paragraph must be sent to: ON Semiconductor, Attn: Sonny Cave, General Counsel, Law Department, MD: A700, 5005 E. McDowell Rd., Phoenix, AZ 85008 and must be received by the General Counsel at that address before the end of the seventh day after Sacomani executes this Agreement.

(The remainder of this page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC

By: /s/ George H. Cave
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Its: Vice President and Secretary
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Date: May 3, 2002
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/s/ Dario Sacomani
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DARIO SACOMANI
Date: May 3, 2002
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Acknowledgement

STATE OF ARIZONA ) 
) ss:
County of Maricopa )

On the 3rd day of May, 2002, before me personally came Dario Sacomani who, being by me duly sworn, did depose and say that he resides at Maricopa; and did acknowledge and represent that he has had an opportunity to consult with attorneys and other advisers of his choosing regarding the Termination Agreement attached hereto, that he has reviewed all of the terms of the Termination Agreement and that he fully understands all of its provisions, including, without limitation, the general release and waiver set forth therein.

/s/ Linda M. Lee
- ----------------------------------
Notary Public

Date: May 3, 2002
----------------------------

Exhibit 10.6

March 13, 2002

Syrus Madavi
5670 East Paseo Del Fuente
Tucson, AZ 85750

Dear Syrus:

On behalf of Steve Hanson and the rest of the Board of Directors of ON Semiconductor, I am very pleased to offer you the officer position of Executive Chairman of the Company and the position of Chairman of the Board of Directors, as well as Chairman of the Executive Committee of the Board.

Your role, time horizon, focus areas, compensation, etc., are delineated in the attached document that you worked out with Steve Hanson.

To summarize the compensation elements and other key features of your employment and Board position with the Company that we agreed upon:

1. You will devote approximately 80% of your time to this role.

2. You will be elected to the Board of Directors for a three-year term as Chairman. Our hope and general plan is that you will remain Chairman for several years, although this letter agreement provides for a one-year officer term as Executive Chairman of the Company, which will be reviewed and is extendable at or shortly after the 10-month mark. Either party can terminate this agreement at any time.

3. We expect you to fully assume this role on April 1, 2002.

4. You will receive zero base salary. You will receive no benefits, other than ON's standard holiday/vacation policy.

5. You will be eligible for an annual cash bonus incentive target during your first 12 months of $225,000 (with similar measures and goals as the CEO), with a threshold of 0% and a maximum of $600,000.

6. You will receive a furnished apartment in the Phoenix area for one year, subject to approval by the CFO.

7. You will receive a special grant of 900,000 stock options. The options will be granted at fair market value at the time of grant. Your vested options will have an exercise period for the life of the options (i.e. 10 years). The options will be subject to the following vesting schedule and the terms and conditions of the Company's 2000 Stock Incentive Plan and related stock option grant agreement:

- 200,000 vest immediately
- 150,000 vest at the end of your first 90 days of service as Executive Chairman of the Company
- 150,000 vest at the end of 180 days of service as Executive Chairman of the Company
- 150,000 vest at the end of 270 days of service as Executive Chairman of the Company
- 150,000 vest at the end of one year of service as Executive Chairman of the Company
- 100,000 vest at the end of two years of service as Chairman of the Board

8. You will purchase 100,000 shares of ON stock on the public market prior to April 30, 2002, outside of the Company's blackout periods. If the Company's blackout period prevents this from being practicable, then you will purchase these shares as soon as possible thereafter, during the Company's "trading window."

By signing, you acknowledge that your acceptance of this offer and performance of services hereunder will not violate any other agreement or obligation that you may have with any of your former employers.

Syrus, I hope that this covers all of the items that you have discussed and agreed to with Steve Hanson and Jim Williams. If you have any questions, please call either of them or me. We very much look forward to gaining the value of your leadership and expertise to propel ON to significant levels of performance.

Please sign below to indicate your acceptance of our offer.

Sincerely,

/s/ Richard W. Boyce
- -----------------------------------
Richard W. Boyce on behalf of the Board of Directors ON Semiconductor
Chairman, Board Compensation Committee

Agreed and accepted:

| /s/ Syrus P. Madavi | April 1, 2002 |
| --- | --- |
| Syrus P. Madavi | Date |

cc. Steve Hanson
Enclosure

SYRUS MADAVI
ON SEMICONDUCTOR

POSITION:

Executive Chairman of the Company and Chairman of the Board of Directors
This is a working chairman (employee) position with an expectation of 80%+ of the time dedicated to ON employment. (Minimum three [3] days average, of four [4] days per week.)

DURATION OF AGREEMENT:

One year, extendable after 10 months
First year is hands-on and subsequent years are classical chairman (initially elected to 3-year term as Chairman of the Board)
Expected start date to be April 1, 2002

RESPONSIBILITY:

- To administer corporate governance as Board Chairman
- To provide senior-level executive oversight and redesign business processes, partnering with the CEO

OBJECTIVES:

- Ensure processes for sustained profitable Top Line Growth
- Maximize framework for new product development
- Increase shareholder value

KEY FOCUS AREAS:

- New product process and success to revenue
- New product is the focus but executive involvement will span the corporate business processes to maximize performance and efficiency.

MEASURABLES:

- Very difficult in the one-year time frame.
- Lead the delivery and implementation of a new product development machine including:
    - Product definition
    - Creation
    - Launch
    - Intro to manufacturing

  To be focused on picking the right markets and products
- A roadmap that will last five (5) years
- Number of design wins
- ROI of new products

COMPENSATION:

- Zero base salary
- Potential annual cash bonus incentive target 75% during first year of employment (of hypothetical base of $300K, based on same goals as CEO); 0% at threshold; 200% at maximum.
- No benefits (subject to TI providing benefit continuation)
- Furnished apartment for one (1) year, subject to approval by CFO
- 900K shares with following vesting schedule:
    - 200k vest immediately
    - 150k vest at end of the first 3 months, 6 months, 9 months, and

12 months of employment

- 100k vests at end of 24 months, assuming Madavi is still engaged with the Company in a Chairman of the Board role (not necessarily as "Executive Chairman")

- Madavi commits to purchasing 100k shares of ON stock prior to April 30, 2002.

REPORTING PROCESS:

- Executive is to counsel with CEO on operational decisions.

- All decisions to come from the CEO's office

# SECOND AMENDMENT TO THE ON SEMICONDUCTOR AMENDED AND RESTATED EXECUTIVE DEFERRED COMPENSATION PLAN

Effective December 13, 1999, ON Semiconductor (the "Company") adopted the ON Semiconductor Executive Deferred Compensation Plan. The Plan was amended and restated as the ON Semiconductor Amended and Restated Executive Deferred Compensation Plan ("Plan") effective March 31, 2000, and subsequently amended on one occasion. By this instrument, the Company desires to amend the Plan to permit participants to change their deferral election once during each year with the change to be effective for the following calendar quarter.

1. This Amendment shall amend only those provisions specified herein and those provisions amended hereby shall remain in full force and effect.

2. The second sentence of Section 3.3 is hereby deleted and replaced with the following sentence, to read as follows:

> If the Employee does not timely notify the Plan Administrator of his intent to participate in the Plan, the Employee's participation may commence on the first payroll period following or coinciding with the first day of the next calendar quarter by notifying the Plan Administrator prior to the first day of such calendar quarter and provided further that the Plan Administrator determines that the employee remains eligible to participate in the Plan under Section 3.1.

3. Section 4.2 of the Plan is amended and restated in its entirety, to read as follows:

> 4.2 DESIGNATION AND CHANGE OF DESIGNATION OF PARTICIPANT CONTRIBUTION. All designations or changes of designation of the amount of Participant Deferral Contributions will be made on forms supplied by, or acceptable to, the Plan Administrator, signed by the Participant and delivered to the Plan Administrator. A change in the designation is

effective as of the beginning of the first payroll period following the first day of the next calendar quarter after the notice is received by the Plan Administrator; provided that a Participant may change his rate of contributions only once during each Plan Year, including a change to reduce his rate of contributions to zero. A payroll deduction form is effective for all future Plan Years until it is succeeded by another valid payroll deduction designation form or until the Participant's right to make Participant Deferrals is otherwise suspended or terminated.

4. This Amendment shall be effective January 1, 2002.

EXHIBIT 10.8

# EMPLOYEE INCENTIVE PLAN
JANUARY 2002

## 1. PURPOSES

The purposes of the Employee Incentive Plan of ON Semiconductor Corporation are to motivate employees of the Company (as defined below) to improve stockholder value by linking a portion of their cash compensation to the Company's financial performance, reward employees for improving the Company's financial performance, and help attract and retain key employees.

## 2. DEFINITIONS

A. "Award" means any cash incentive payment made under the Plan.

B. "Committee" means the Compensation Committee of the Board of Directors of ON Semiconductor Corporation, or such other committee designated by the Board of Directors, which is authorized to administer the Plan (as defined below) under Section 3 hereof.

C. "Company" means ON Semiconductor Corporation and any corporation or other business entity of which ON Semiconductor Corporation (i) directly or indirectly has an ownership interest of 50% or more, or (ii) has a right to elect or appoint 50% or more of the board of directors or other governing body.

D. "EBITDA" means the Company's earnings before interest, taxes, depreciation, and amortization.

E. "Participant" means any employee to whom an Award is granted under the Plan.

F. "Plan" means this Plan, which shall be known as the Employee Incentive Plan and/or the ONcentive Plan.

G. "Performance Period" means one or more periods of time, which may be of varying and overlapping duration, as the Committee may select, over which the attainment of one or more performance goals will be measured for the purpose of determining a Participant's right to, and the payment of, compensation under the Plan.

H. "Deferred Compensation Plan" means the ON Semiconductor Executive Deferred Compensation Plan, as amended and restated on March 8, 2000, and as thereafter amended from time to time.

## 3. ADMINISTRATION

A. The Plan shall be administered by the Committee. The Committee shall have the authority to:

(i) interpret and determine all questions of policy and expediency pertaining to the Plan;

(ii) adopt such rules, regulations, agreements and instruments as it deems necessary for its proper administration;

(iii) select employees to be Participants in the Plan;

(iv) determine Participants that receive Awards;

(v) determine performance goals and levels of performance for the Plan;

(vi) determine any formula necessary to calculate the amount of Awards under the Plan;

(vii) determine the terms of Awards including, without limitation, the duration of any Performance Period;

(viii) determine amounts subject to Awards (within the limits prescribed in the Plan);

(ix) determine whether Awards will be granted in replacement of or as alternatives to any other incentive or compensation plan of the Company or an acquired business unit;

(x) grant waivers of Plan or Award conditions;

(xi) accelerate the payment of Awards;

(xii) correct any defect, supply any omission, or reconcile any inconsistency in the Plan, any Award or any Award notice;

(xiii) take any and all other actions it deems necessary or advisable for the proper administration of the Plan;

(xiv) adopt such Plan procedures, regulations, subplans and the like as it deems are necessary to enable Participants to receive Awards; and

(xv) amend the Plan at any time and from time to time.

B. The Committee may delegate its authority to grant and administer Awards to a separate committee.

4. ELIGIBILITY

Each regular full-time or part-time employee of the Company working twenty (20) hours or more per week is eligible to participate in the Plan; provided, however such employee shall not be eligible to participant in the Plan, if the employee is eligible to participate in any other bonus incentive plan of the Company. Any employee of the Company who is designated as an on-call,

intern, co-op, part-time working less than 20 hours per week, or any individual designated as a contractor, consultant, hired through a temporary staffing agency, or similar arrangement is not eligible to participate in the Plan. From among the above eligible employees, the Committee shall select individuals to be Participants in the Plan.

5. PERFORMANCE GOALS

A. The Company will grant an Award in the event certain performance goals are met for a Performance Period as determined by the Committee. The performance goals shall be determined by the Committee in its sole and absolute discretion. It is the Committee's initial determination to base the performance goals on EBITDA, however, the Committee, in its sole and absolute discretion, may select any other performance goal at any time in the future. The target goal for each Performance Period will be communicated to the Participants in a timely manner by the Company near the beginning of each Performance Period.

B. The Committee shall determine level(s) of performance that must be achieved before there is an Award.

C. Based on the Company's recommendation, the Committee shall establish the formula necessary to determine the amount, if any, of each Participant's Award.

6. AWARDS

A. Awards may be made on the basis of Company and/or business unit performance goals and formulas as determined by the Committee; provided, however that for the first and second Performance Period of the Plan the Committee has determined that EBITDA shall be the performance goals. Should the EBITDA goals for the first Performance Period of the Plan be met, Awards will be paid by the Company as soon as is reasonably practicably after the close of the accounting books and records of the Company for the period ended June 28, 2002. Should the EBITDA goals for the second Performance Period of the Plan be met, Awards shall be paid by the Company as soon as is reasonably practicable after the close of the accounting books and records of the Company for the period ended December 31, 2002. Subject to the terms of the Plan, the Company will pay Awards to Participants as soon as is reasonably practicable after the close of the accounting books and records of the Company for the relevant Performance Period.

B. The Committee, in its sole and absolute discretion, may increase, reduce or eliminate a Participant's Award at any time before it is paid, whether or not calculated on the basis of pre-established performance goals or formulas.

C. The payment of an Award requires that the Participant be on the Company's payroll as of the last day of each Performance Period and on the Company's payroll as of the date the Award is paid. The Committee may make exceptions to this requirement in its sole and absolute discretion.

D. The Company shall withhold all applicable federal, state, local and foreign taxes required by law to be paid or withheld relating to the receipt or payment of any Award.

E. Those Participants who are also participants in the Deferred Compensation Plan may defer payment of an Award or any portion thereof under this Plan pursuant to the Deferred Compensation Plan.

7. GENERAL

A. The Plan shall become effective as of January 1, 2002.

B. Any rights of a Participant under the Plan shall not be assignable by such Participant, by operation of law or otherwise, except by will or the laws of descent and distribution. No Participant may create a lien on any funds or rights to which he or she may have an interest under the Plan, or which is held by the Company for the account of the Participant under the Plan.

C. Participation in the Plan shall not give any employee any right to remain an employ of the Company. Further, the adoption of this Plan shall not be deemed to give any employee or other individual the right to be selected as a Participant or to be granted an Award.

D. To the extent any person acquires a right to receive payments from the Company under this Plan; such rights shall be no greater than the rights of an unsecured creditor of the Company.

E. The Plan shall be governed by and construed in accordance with the laws of the State of Arizona.

F. The Committee may suspend or terminate the Plan at any time with or without prior notice, and with or without reason. In addition, the Committee may from time to time, with or without prior notice, and with or without reason, amend or modify the Plan in any manner.