UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2007

Or

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

For the transition period from to

(Commission File Number) 000-30419

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

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

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

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

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

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

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

The number of shares outstanding of the issuer’s class of common stock as of the close of business on October 26, 2007:

Title of Each Class	Number of Shares
Common Stock, par value $0.01 per share	**292,275,875**

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PART I: FINANCIAL INFORMATION

Item 1. *Financial Statements*

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

	September 28, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 327.1	$ 268.8
Receivables, net	193.4	177.9
Inventories, net	216.5	212.7
Other current assets	41.0	34.3
Deferred income taxes	7.2	7.1
Total current assets	785.2	700.8
Property, plant and equipment, net	608.5	578.1
Goodwill	81.1	80.7
Intangible assets, net	8.7	10.4
Other assets	42.8	46.5
Total assets	$ 1,526.3	$ 1,416.5
Liabilities, Minority Interests and Stockholders' Deficit		
Accounts payable	$ 134.9	$ 165.7
Accrued expenses	105.4	111.7
Income taxes payable	2.1	3.2
Accrued interest	5.0	1.3
Deferred income on sales to distributors	115.7	123.2
Current portion of long-term debt	27.3	27.9
Total current liabilities	390.4	433.0
Long-term debt	1,112.2	1,148.1
Other long-term liabilities	52.4	35.8
Deferred income taxes	6.1	4.2
Total liabilities	1,561.1	1,621.1
Commitments and contingencies (See Note 10)		
Minority interests in consolidated subsidiaries	18.7	20.8
Common stock ($0.01 par value, 600,000,000 shares authorized, 337,545,458 and 326,765,402 shares issued, 292,129,488 and 286,349,432 shares outstanding), respectively	3.4	3.3
Additional paid-in capital	1,411.3	1,356.4
Accumulated other comprehensive loss	(0.5)	(0.4)
Accumulated deficit (See Note 4)	(1,112.5)	(1,284.7)
Less: Treasury stock, at cost; 45,415,970 and 40,415,970 shares, respectively	(355.2)	(300.0)
Total stockholders' deficit	(53.5)	(225.4)
Total liabilities, minority interests and stockholders' deficit	$ 1,526.3	$ 1,416.5

See accompanying notes to consolidated financial statements.

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

	Quarter Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Product revenues	$ 381.1	$ 372.2	$ 1,084.7	$ 1,066.7
Manufacturing service revenues	21.8	48.7	73.6	63.5
Net revenues	402.9	420.9	1,158.3	1,130.2
Cost of product revenues	226.0	223.2	643.1	650.1
Cost of manufacturing services revenues	21.3	37.3	77.0	48.8
Cost of revenues	247.3	260.5	720.1	698.9
Gross profit	155.6	160.4	438.2	431.3
Operating expenses:				
Research and development	34.4	25.9	97.6	74.7
Selling and marketing	24.4	23.2	70.6	66.9
General and administrative	21.6	23.1	60.6	64.6
Restructuring, asset impairments and other, net	2.0	—	2.0	3.3
Total operating expenses	82.4	72.2	230.8	209.5
Operating income	73.2	88.2	207.4	221.8
Other income (expenses), net:				
Interest expense	(9.6)	(13.8)	(28.7)	(39.9)
Interest income	3.1	3.6	8.8	8.4
Other	0.2	(0.7)	(0.3)	0.1
Loss on debt prepayment	—	—	(0.1)	—
Other income (expenses), net	(6.3)	(10.9)	(20.3)	(31.4)
Income before income taxes and minority interests	66.9	77.3	187.1	190.4
Income tax provision	(2.4)	—	(4.4)	(3.8)
Minority interests	(0.7)	(0.5)	(1.6)	(1.9)
Net income	$ 63.8	$ 76.8	$ 181.1	$ 184.7
Comprehensive income:				
Net income	$ 63.8	$ 76.8	$ 181.1	$ 184.7
Foreign currency translation adjustments	3.1	—	1.5	1.2
Effects of cash flows hedges	(0.4)	(2.1)	(1.8)	(0.4)
Comprehensive income	$ 66.5	$ 74.7	$ 180.8	$ 185.5
Income per common share:				
Basic:	$ 0.22	$ 0.24	$ 0.62	$ 0.58
Diluted:	$ 0.20	$ 0.23	$ 0.57	$ 0.54
Weighted average common shares outstanding:				
Basic	290.6	324.9	290.3	319.8
Diluted	317.8	336.6	317.6	346.0

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)
(unaudited)

	Quarter Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Cash flows from operating activities:				
Net income	$ 63.8	$ 76.8	$ 181.1	$ 184.7
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	22.8	19.3	67.6	60.0
(Gain) loss on sale or disposal of property, plant and equipment	(1.3)	0.5	(7.6)	0.3
Proceeds, net of gain, from termination of interest rate swaps	(0.3)	—	0.5	—
Amortization of debt issuance costs	1.0	0.7	3.1	2.0
Provision for excess inventories	0.6	7.1	5.9	16.2
Non-cash portion of loss on debt prepayment	—	—	0.1	—
Non-cash impairment of property, plant and equipment	—	—	—	4.7
Non-cash stock compensation expense	4.1	2.9	10.9	7.2
Deferred income taxes	1.1	0.4	1.9	0.3
Other	0.6	0.2	0.7	—
Changes in assets and liabilities:				
Receivables	(20.9)	5.5	(14.8)	(35.0)
Inventories	4.0	(17.8)	(9.7)	(52.5)
Other assets	(2.4)	(6.8)	(14.7)	(17.0)
Accounts payable	15.3	5.5	(3.7)	0.3
Accrued expenses	1.4	(7.6)	(6.8)	16.6
Income taxes payable	(1.1)	—	(1.1)	0.9
Accrued interest	3.9	0.9	3.7	0.8
Deferred income on sales to distributors	5.3	1.7	(7.5)	31.5
Other long-term liabilities	0.5	0.2	7.3	0.2
Net cash provided by operating activities	98.4	89.5	216.9	221.2
Cash flows from investing activities:				
Purchases of property, plant and equipment	(33.8)	(51.3)	(110.4)	(186.4)
Deposits utilized (funds deposited) for purchases of property, plant and equipment	0.9	(1.0)	1.1	(0.7)
Proceeds from sales of property, plant and equipment	1.4	0.2	10.6	1.3
Purchases of intangible assets	—	—	—	(11.9)
Purchase of held-to-maturity securities	—	(35.4)	—	(35.4)
Proceeds from sales of available-for-sale securities	—	—	—	2.3
Investment in non-marketable securities	(1.5)	—	(1.5)	—
Purchase of minority interest	—	(9.2)	—	(9.2)
Net cash used in investing activities	(33.0)	(96.7)	(100.2)	(240.0)
Cash flows from financing activities:				
Proceeds from debt issuance	—	11.0	0.5	11.0
Proceeds from issuance of common stock under the employee stock purchase plan	1.2	1.0	3.5	2.1
Proceeds from stock option exercises	11.3	1.1	40.1	10.0
Proceeds from issuance of common stock, net of issuance costs	—	(0.1)	—	76.3
Dividend to minority shareholder of consolidated subsidiary	(1.3)	(0.4)	(4.1)	(1.4)
Purchase of treasury stock	—	—	(55.2)	—
Payment of capital lease obligations	(2.5)	(0.9)	(10.6)	(4.8)
Payment of debt issuance and amendment costs	—	(1.3)	(0.4)	(3.0)
Repayment of long-term debt	(3.5)	(64.4)	(32.3)	(71.8)
Net cash provided by (used in) financing activities	5.2	(54.0)	(58.5)	18.4
Effect of exchange rate changes on cash and cash equivalents	0.7	(0.1)	0.1	0.5
Net increase (decrease) in cash and cash equivalents	71.3	(61.3)	58.3	0.1
Cash and cash equivalents, beginning of period	255.8	294.7	268.8	233.3
Cash and cash equivalents, end of period	$ 327.1	$ 233.4	$ 327.1	$ 233.4

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1: Background and Basis of Presentation

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

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

The accompanying unaudited financial statements as of September 28, 2007, and for the three months and nine months ended September 28, 2007 and September 29, 2006 respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of December 31, 2006 and for the year then ended included in the Company's annual report on Form 10-K for the year ended December 31, 2006.

Note 2: Liquidity

The Company's long-term debt is due at various times ranging from 2007 to 2026 depending on the debt instrument (see *Note 6: Long-Term Debt*). The Company's long-term debt agreements also include various covenants which the Company was in compliance with as of September 28, 2007 and expects to remain in compliance with over the next twelve months. The Company's ability to service its long-term debt, to remain in compliance with the various covenants and restrictions contained in its financing agreements and to fund working capital, capital expenditures and business development efforts will depend on its ability to generate cash from operating activities which is subject to, among other things, its future operating performance as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may be beyond its control. Management believes that cash flows from operating activities coupled with existing cash balances will be adequate to fund the Company's operating and capital needs through at least September 28, 2008. To the extent that results or events differ from the Company's financial projections or business plans, its liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Principles of Consolidation

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

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

Use of Estimates

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

Cash and cash equivalents

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

Allowance for Doubtful Accounts

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

Approximately 16% of the Company's revenues for the quarter ended September 28, 2007 are attributable to its various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation ("Delphi"), one of the Company's automotive customers, and certain of Delphi's U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the quarter and nine months ended September 28, 2007, the Company's revenues from Delphi accounted for less than 3% of its total revenues. During the quarter ended March 30, 2007, the Company sold, without discount, to a third party with recourse to the Company all of its receivables due from Delphi of $5.4 million that are subject to collection pending resolution of the reorganization proceedings.

Inventories

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

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)**

Property, Plant and Equipment

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

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

The Company plans to sell approximately 51 acres of land and two buildings located at its corporate headquarters in Phoenix, Arizona. The remainder of the Phoenix site will continue as the Company's corporate headquarters as well as a manufacturing, design center and research and development facility. During the second quarter of 2007, the Company entered into an agreement to sell three parcels of land totaling approximately 22 acres for approximately $12.3 million subject to various conditions and certain adjustments. If the sales are completed at the originally contracted price, the Company expects to record gains totaling approximately $11.0 million over the next three to four quarters. The remaining property and buildings are currently being marketed for sale.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the Company's April 2000 acquisition of Cherry Semiconductor Corporation (Cherry) and in the Company's September 2006 acquisition of an additional interest in its investment in Leshan-Phoenix Semiconductor Company ("Leshan"). When the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142") the net carrying value of the Cherry Goodwill was $77.3 million, which included $18.4 million of accumulated amortization. Additionally, during the third quarter of 2006 the Company acquired an additional interest in its investment in Leshan for $9.2 million, for which the incremental interest in the underlying net tangible assets had an estimated fair value of $5.4 million resulting in $3.8 million of Goodwill. Under SFAS No. 142, goodwill is evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The Company performs its annual impairment analysis as of the first day of the fourth quarter of each year.

Intangible Assets

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

Intangible assets, net were as follows as of September 28, 2007 (in millions):

	Original Cost	Accumulated Amortization	Carrying Value	Useful Life (in Years)
Intellectual Property	$ 5.2	$ (1.4)	$ 3.8	5
Assembled Workforce	6.7	(1.8)	4.9	5
Total intangibles	$ 11.9	$ (3.2)	$ 8.7	

Amortization expense for intangible assets amounted to $0.5 million and $1.7 million for the quarter and nine months ended September 28, 2007, respectively as compared to $0.4 million and $0.7 million for the quarter and nine months ended September 29, 2006, respectively and is expected to be as follows over the next five years (in millions).

	Intellectual Property	Assembled Workforce
Remainder of 2007	$ 0.3	$ 0.3
2008	1.0	1.3
2009	1.0	1.3
2010	1.0	1.3
2011	0.5	0.7
Total estimated amortization expense	$ 3.8	$ 4.9

Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the term of the underlying agreements using the effective interest method. Upon prepayment of debt, the related unamortized debt issuance costs are charged to expense. Amortization of debt issuance costs is included in interest expense while the unamortized balance is included in other assets. Capitalized debt issuance costs totaled $20.0 million and $22.9 million at September 28, 2007 and December 31, 2006, respectively.

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

Revenue Recognition

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

Research and Development Costs

Research and development costs are expensed as incurred.

Share-Based Payments

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

Under SFAS 123R, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period. As of September 28, 2007, the Company had no unvested awards with market or performance conditions, although it did have outstanding awards with time and service based vesting provisions. The Company adopted the provisions of SFAS No. 123R on January 1, 2006, the first day of the Company's fiscal year 2006, using a modified prospective application, which provides for certain changes to the method for recognizing share-based compensation. Under the modified prospective application, prior periods are not revised for comparative purposes. The provisions of SFAS No. 123R apply to new awards and to awards that are outstanding with future service periods on the effective date. Estimated compensation expense for awards outstanding with future service periods at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under FASB Statement No. 123, "Accounting for Stock-Based Compensation."

Income Taxes

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

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

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

Foreign Currencies

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

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

Defined Benefit Plans

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

Asset Retirement Obligations

The Company recognizes asset retirement obligations (“AROs”) when incurred, with the initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. In addition, asset retirement costs are capitalized as part of the related asset's carrying value and are depreciated over the asset's respective useful life. The weighted average discount rate used to determine the liability as of September 28, 2007 was 6.3%. The Company's AROs consist primarily of estimated decontamination costs associated with manufacturing equipment and buildings resulting from the Company's adoption of FIN 47, "Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143" effective December 31, 2005.

Contingencies

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

Note 4: Accounting Changes

Estimated Useful Life

During the quarter ended June 30, 2006, the Company commissioned a study of the manufacturing equipment at its worldwide locations, which included an assessment of the estimated useful lives of those assets. The results of the study supported an estimated useful life of 10 years. Management, factoring in the results of this study, has revised the estimated useful lives of its manufacturing equipment for depreciation purposes to 10 years as of the beginning of the second quarter of 2006 and on a prospective basis. The effect of this change was to decrease depreciation expense by $9.8 million, increase net income by $9.8 million and increase basic and diluted net income per share by $0.03 for the nine months ended September 28, 2007.

Adoption of FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2001.

As of January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). As a result of the adoption of FIN 48, the Company recognized the cumulative effect of applying the provisions of FIN 48 as an $8.9 million increase in the opening balance of accumulated deficit as of January 1, 2007 and an increase to the liability for unrecognized tax benefits. The amount of unrecognized tax benefit as of January 1, 2007 after the FIN 48 adjustment was $25.8 million.

The entire January 1, 2007 balance of $25.8 million relates to unrecognized tax positions that, if recognized, would affect the annual effective tax rate of the Company. Included in the $25.8 million balance of unrecognized tax benefits at January 1, 2007, is $12.9 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the twelve months following September 28, 2007, as a result of expiring statutes of limitations.

The Company recognizes interest and penalties accrued in relation to unrecognized tax benefits in tax expense. At January 1, 2007, the Company had accrued approximately $4.0 million for the payment of interest and penalties.

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The impact of the adoption of FIN 48 on the opening balance of accumulated deficit as of January 1, 2007 is as follows (in millions):

Accumulated deficit as of December 31, 2006	$(1,284.7)
Impact of adoption of FIN 48 on accumulated deficit as of January 1, 2007	(8.9)
Accumulated deficit as of January 1, 2007	(1,293.6)
Net income for the nine months ended September 28, 2007	181.1
Accumulated deficit as of September 28, 2007	$(1,112.5)

Note 5: Restructuring, Asset Impairment and Other, Net

In March 2007, the Company announced plans to consolidate manufacturing efforts with the closing of one of its manufacturing facilities at its Phoenix, Arizona location. The wafer manufacturing that takes place at this facility will be transferred to the Company’s offshore low-cost manufacturing facilities, expected to be completed by the end of the third quarter of 2008. It is anticipated that approximately 80 manufacturing employees will be terminated as a direct result of this consolidation effort. Also in connection with this activity, during the third quarter of 2007 the Company announced reductions in factory support functions at its Phoenix, Arizona and Gresham, Oregon locations which resulted in the elimination or transfer of 62 positions. These measures were initiated for cost savings purposes. Employees impacted by these announcements began to exit during the third quarter of 2007. All terminations and associated severance payments related to these activities are expected to be completed by the end of the third quarter of 2008. In September 2007, the Company recorded $2.0 million of employee separation charges related to these announcements, and expects to record an additional $0.8 through the end of the third quarter of 2008.

The activity related to the Company’s restructuring, asset impairments and other, net for the program that was initiated in 2007, is as follows (in millions):

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Nine months ended September 28, 2007	$ —	$ 2.0	$(1.7)	$ —	$ 0.3

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Note 6: Balance Sheet Information

Balance sheet information is as follows (in millions):

	September 28, 2007	December 31, 2006
Receivables, net:		
Accounts receivable	$ 197.5	$ 182.7
Less: Allowance for doubtful accounts	(4.1)	(4.8)
	$ 193.4	$ 177.9
Inventories, net:		
Raw materials	$ 28.8	$ 25.6
Work in process	112.3	104.7
Finished goods	75.4	82.4
	$ 216.5	$ 212.7
Property, plant and equipment, net:		
Land	$ 28.3	$ 27.9
Buildings	373.7	368.9
Machinery and equipment	1,210.4	1,157.3
Total property, plant and equipment	1,612.4	1,554.1
Less: Accumulated depreciation	(1,003.9)	(976.0)
	$ 608.5	$ 578.1
Accrued expenses:		
Accrued payroll	$ 37.9	$ 48.6
Sales related reserves	41.1	34.8
Accrued pension liability	0.3	0.3
Restructuring reserves	0.3	—
Other	25.8	28.0
	$ 105.4	$ 111.7
Accumulated other comprehensive income (loss):		
Foreign currency translation adjustments	$ (0.4)	$ (1.9)
Unrecognized prior service cost of defined benefit pension plan	(0.6)	(0.8)
Net unrealized gains and adjustments related to cash flow hedges	0.5	2.3
	$ (0.5)	$ (0.4)

The activity related to the Company's warranty reserves for the nine months ended September 28, 2007 is as follows (in millions):

Balance as of December 31, 2006	$ 2.4
Provision	1.0
Usage	(1.2)
Adjustments	—
Balance as of September 28, 2007	$ 2.2

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

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

The Company maintains a defined benefit plan for some of its foreign subsidiaries. The Company recognizes a liability in its financial statements for the unfunded status of its pension plans. As of September 28, 2007 and December 31, 2006, the total accrued pension liability was $12.7 million and $12.8 million, respectively, of which the current portion of $0.2 million and $0.3 million, respectively, were classified as accrued expenses. Included within accumulated other comprehensive income at September 28, 2007 was $0.6 million related to unrecognized prior service cost for these plans. The components of the Company's net periodic pension expense for the quarters and nine months ended September 28, 2007 and September 29, 2006 are as follows (in millions):

	Quarter Ended	
	September 28, 2007	September 29, 2006
Service cost	$ 0.3	$ 0.3
Interest cost	0.3	0.2
Expected return on plan assets	(0.1)	(0.2)
Amortization of prior service cost	—	0.1
Total net periodic pension cost	$ 0.5	$ 0.4

	Nine Months Ended	
	September 28, 2007	September 29, 2006
Service cost	$ 0.8	$ 0.8
Interest cost	0.9	0.7
Expected return on plan assets	(0.5)	(0.5)
Amortization of prior service cost	0.2	0.3
Total net periodic pension cost	$ 1.4	$ 1.3

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Note 7: Long-Term Debt

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

	September 28 2007	December 31, 2006
Senior Bank Facilities:		
Term Loan, interest payable quarterly at 6.948% and 7.6140%, respectively	$ 174.1	$ 198.9
Revolver	—	—
	174.1	198.9
Zero Coupon Convertible Senior Subordinated Notes due 2024 [(1)]	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025 [(1)]	95.0	95.0
2.625% Convertible Senior Subordinated Notes due 2026 [(1)]	484.0	484.0
2.25% Note payable to Japanese bank due 2008 through 2010, interest payable semi-annually	9.5	12.4
Loan with Chinese bank due 2009, interest payable quarterly at 6.438% and 6.565%, respectively	14.0	14.0
Loan with Chinese bank due 2009, interest payable quarterly at 6.438% and 6.565%, respectively	6.0	6.0
Loan with Chinese bank due 2007 through 2013, interest payable semi-annually at 6.600% and 6.580%, respectively	8.6	9.6
Loan with Chinese bank due 2007 through 2009, interest payable semi-annually at 6.570% and 6.600%, respectively	16.8	20.0
Loan with Chinese bank due 2009, interest payable semi-annually at 6.341% and 6.560%, respectively	5.0	5.0
5.0% Note payable to Oregon State due 2009	0.5	—
Capital lease obligations	66.0	71.1
	1,139.5	1,176.0
Less: Current maturities	(27.3)	(27.9)
	$ 1,112.2	$ 1,148.1

(1) The Zero Coupon Convertible Senior Subordinated Notes due 2024, the 1.875% Convertible Senior Subordinated Notes due 2025 and the 2.625% Convertible Senior Subordinated Notes due 2026 may be purchased by the Company at the option of the holders of the notes on April 15, 2010, December 15, 2012 and December 15, 2013, respectively.

Annual maturities relating to the Company's long-term debt as of September 28, 2007 are as follows (in millions):

Remainder of	2007	$ 6.8
	2008	26.4
	2009	57.3
	2010	277.0
	2011	14.0
	Thereafter	758.0
	Total	$ 1,139.5

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October 2007 Philippine General Loan

In October 2007, the Company's Philippine subsidiary entered into a five-year loan agreement with the Bank of the Philippine Islands, Metropolitan Bank & Trust Company and Security Bank Corporation to finance capital expenditures and other general corporate purposes. The loan amount of $25.0 million bears interest at an annual rate of 3-month LIBOR plus 1% per annum. Sixty percent of the total loan amount will be repaid in nineteen equal quarterly installments with the balance to be repaid on the maturity date of the loan, which is October 11, 2012.

March 2007 Amendment to Senior Bank Facilities

In March 2007, the Company refinanced the term loans under its senior bank facilities to reduce, among other things, the interest rate from LIBOR plus 2.25% to LIBOR plus 1.75%. The amended and restated credit agreement also extended the maturity date of the facilities by approximately four years to 2013. Additionally, using cash generated from operations, during the first quarter of 2007 the Company repaid approximately $23.9 million of the term loans under the senior bank facilities. Terms within the Company's senior bank facilities contain financial and other covenants more restrictive than those that are currently applicable should the Company exceed leverage and secured leverage ratios as specified therein.

Oregon State Note

In January 2007, the Company recorded the receipt of $0.5 million of proceeds from a loan agreement and promissory note with the State of Oregon for the purpose of developing local business. The total loan is expected to be for $1.5 million and is to be disbursed in three (3) equal payments with each payment conditioned on the completion of certain requirements by the Company. The note is for the loan amount or so much thereof as has been disbursed. The note matures on July 31, 2009 and carries an annual interest rate of 5.0%. The State of Oregon will forgive all or a portion of the loan and accrued interest upon the satisfaction by the Company of certain conditions, including maintaining 400 full-time equivalent employees at the Gresham, Oregon facility for a specific period of time.

Loss on Debt Prepayment

In March 2007, the Company incurred a loss on debt prepayment of $0.1 million resulting from the prepayment of $23.9 million of our senior bank facilities.

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Debt Guarantees

The Company is the sole issuer of the zero coupon convertible senior subordinated notes due 2024, the 1.875% convertible senior subordinated notes due 2025 and the 2.625% convertible senior subordinated notes due 2026 (collectively, "the Notes"). The Company's domestic subsidiaries (collectively, the "Guarantor Subsidiaries") fully and unconditionally guarantee on a joint and several basis the Company's obligations under the Notes. The Guarantor Subsidiaries include SCI LLC, Semiconductor Components Industries of Rhode Island, Inc, as well as holding companies whose net assets consist primarily of investments in the joint venture in Leshan, China and equity interests in the Company's other foreign subsidiaries. The Company's other remaining subsidiaries (collectively, the "Non-Guarantor Subsidiaries") are not guarantors of the Notes. Condensed consolidating financial information for the issuer of the notes, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries is as follows (in millions):

	Issuer	Guarantor Subsidiaries				
	ON Semiconductor Corporation [(1)]	SCI LLC	Other Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of September 28, 2007						
Cash and cash equivalents	$ —	$ 254.7	$ —	$ 72.4	$ —	$ 327.1
Receivables, net	—	33.4	—	160.0	—	193.4
Inventories, net	—	32.0	—	183.8	0.7	216.5
Other current assets	—	11.1	—	29.9	—	41.0
Deferred income taxes	—	(1.8)	—	9.0	—	7.2
Total current assets	—	329.4	—	455.1	0.7	785.2
Property, plant and equipment, net	—	162.3	3.6	442.6	—	608.5
Goodwill and intangible assets	—	13.7	73.1	3.0	—	89.8
Investments and other assets	581.9	514.9	43.7	13.9	(1,111.6)	42.8
Total assets	$ 581.9	$1,020.3	$ 120.4	$ 914.6	$ (1,110.9)	$1,526.3
Accounts payable	$ —	$ 28.4	$ 0.1	$ 106.4	$ —	$ 134.9
Accrued expenses and other current liabilities	4.2	56.4	1.2	76.3	1.7	139.8
Deferred income on sales to distributors	—	30.3	—	85.4	—	115.7
Total current liabilities	4.2	115.1	1.3	268.1	1.7	390.4
Long-term debt	839.0	217.1	—	56.1	—	1,112.2
Other long-term liabilities	—	36.6	0.1	15.7	—	52.4
Deferred income taxes	—	(1.8)	—	7.9	—	6.1
Intercompany	(207.8)	(71.2)	(13.0)	86.5	205.5	—
Total liabilities	635.4	295.8	(11.6)	434.3	207.2	1,561.1
Minority interests in consolidated subsidiaries	—	—	—	—	18.7	18.7
Stockholders' equity (deficit)	(53.5)	724.5	132.0	480.3	(1,336.8)	(53.5)
Liabilities, minority interests and stockholders' equity (deficit)	$ 581.9	$1,020.3	$ 120.4	$ 914.6	$ (1,110.9)	$1,526.3

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	Issuer	Guarantor Subsidiaries				
	ON Semiconductor Corporation (1)	SCI LLC	Other Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of December 31, 2006						
Cash and cash equivalents	$ —	$ 186.7	$ —	$ 82.1	$ —	$ 268.8
Receivables, net	—	35.5	—	142.4	—	177.9
Inventories, net	—	35.3	—	175.5	1.9	212.7
Other current assets	—	7.9	—	26.4	—	34.3
Deferred income taxes	—	(1.8)	—	8.9	—	7.1
Total current assets	—	263.6	—	435.3	1.9	700.8
Property, plant and equipment, net	—	166.7	3.0	408.4	—	578.1
Goodwill and intangible assets	—	14.9	72.6	3.6	—	91.1
Investments and other assets	406.4	248.7	48.5	19.0	(676.1)	46.5
Total assets	$ 406.4	$ 693.9	$ 124.1	$ 866.3	$ (674.2)	$1,416.5
Accounts payable	$ —	$ 42.3	$ 0.1	$ 123.3	$ —	$ 165.7
Accrued expenses and other current liabilities	0.7	69.9	1.0	70.8	1.7	144.1
Deferred income on sales to distributors	—	39.9	—	83.3	—	123.2
Total current liabilities	0.7	152.1	1.1	277.4	1.7	433.0
Long-term debt	839.0	248.0	—	61.1	—	1,148.1
Other long-term liabilities	—	20.3	0.2	15.3	—	35.8
Deferred income taxes	—	(1.8)	—	6.0	—	4.2
Intercompany	(207.9)	(266.1)	179.9	88.6	205.5	—
Total liabilities	631.8	152.5	181.2	448.4	207.2	1,621.1
Minority interests in consolidated subsidiaries	—	—	—	—	20.8	20.8
Stockholders' equity (deficit)	(225.4)	541.4	(57.1)	417.9	(902.2)	(225.4)
Liabilities, minority interests and stockholders' equity (deficit)	$ 406.4	$ 693.9	$ 124.1	$ 866.3	$ (674.2)	$1,416.5

	Issuer	Guarantor Subsidiaries				
	ON Semiconductor Corporation (1)	SCI LLC	Other Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the quarter ended September 28, 2007						
Revenues	$ —	$ 132.2	$ 4.7	$ 510.7	$ (244.7)	$ 402.9
Cost of revenues	—	114.9	0.4	372.4	(240.4)	247.3
Gross profit	—	17.3	4.3	138.3	(4.3)	155.6
Research and development	—	7.1	3.1	24.2	—	34.4
Selling and marketing	—	13.4	0.3	10.7	—	24.4
General and administrative	—	(2.2)	—	23.8	—	21.6
Restructuring, asset impairments and other, net	—	2.0	—	—	—	2.0
Total operating expenses	—	20.3	3.4	58.7	—	82.4
Operating income (loss)	—	(3.0)	0.9	79.6	(4.3)	73.2
Interest expense, net	(4.6)	(0.9)	—	(1.0)	—	(6.5)
Other	—	1.2	—	(1.0)	—	0.2
Equity in earnings	68.4	68.5	1.7	—	(138.6)	—
Income (loss) before income taxes, and minority interests	63.8	65.8	2.6	77.6	(142.9)	66.9
Income tax provision	—	1.3	—	(3.7)	—	(2.4)
Minority interests	—	—	—	—	(0.7)	(0.7)
Net income (loss)	$ 63.8	$ 67.1	$ 2.6	$ 73.9	$ (143.6)	$ 63.8

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	Issuer	Guarantor Subsidiaries				
	ON Semiconductor Corporation (1)	SCI LLC	Other Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the quarter ended September 29, 2006						
Revenues	$ —	$ 162.0	$ 3.7	$ 471.9	$ (216.7)	$420.9
Cost of revenues	—	124.4	0.5	355.8	(220.2)	260.5
Gross profit	—	37.6	3.2	116.1	3.5	160.4
Research and development	—	6.1	3.1	16.7	—	25.9
Selling and marketing	—	12.8	0.2	10.2	—	23.2
General and administrative	—	(5.6)	—	28.7	—	23.1
Restructuring, asset impairments and other, net	—	—	—	—	—	—
Total operating expenses	—	13.3	3.3	55.6	—	72.2
Operating income (loss)	—	24.3	(0.1)	60.5	3.5	88.2
Interest expense, net	(1.0)	(4.2)	(2.2)	(2.8)	—	(10.2)
Other	—	(0.7)	—	—	—	(0.7)
Equity in earnings	77.8	56.0	1.0	—	(134.8)	—
Income (loss) before income taxes, and minority interests	76.8	75.4	(1.3)	57.7	(131.3)	77.3
Income tax provision	—	1.3	—	(1.3)	—	—
Minority interests	—	—	—	—	(0.5)	(0.5)
Net income (loss)	$ 76.8	$ 76.7	$ (1.3)	$ 56.4	$ (131.8)	$ 76.8

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	Issuer	Guarantor Subsidiaries				
	ON Semiconductor Corporation (1)	SCI LLC	Other Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the nine months ended September 28, 2007						
Revenues	$ —	$ 402.4	$ 11.7	$ 1,436.2	$ (692.0)	$1,158.3
Cost of revenues	—	345.2	1.3	1,064.4	(690.8)	720.1
Gross profit	—	57.2	10.4	371.8	(1.2)	438.2
Research and development	—	21.7	9.1	66.8	—	97.6
Selling and marketing	—	37.5	0.9	32.2	—	70.6
General and administrative	—	145.8	(150.0)	64.8	—	60.6
Restructuring, asset impairments and other, net	—	2.0	—	—	—	2.0
Total operating expenses	—	207.0	(140.0)	163.8	—	230.8
Operating income (loss)	—	(149.8)	150.4	208.0	(1.2)	207.4
Interest expense, net	(13.7)	(0.1)	(2.1)	(4.0)	—	(19.9)
Other	—	(0.6)	—	0.3	—	(0.3)
Loss on debt prepayment	—	(0.1)	—	—	—	(0.1)
Equity in earnings	194.8	337.7	3.8	—	(536.3)	—
Income (loss) before income taxes, and minority interests	181.1	187.1	152.1	204.3	(537.5)	187.1
Income tax provision	—	4.0	—	(8.4)	—	(4.4)
Minority interests	—	—	—	—	(1.6)	(1.6)
Net income (loss)	$ 181.1	$ 191.1	$ 152.1	$ 195.9	$ (539.1)	$ 181.1
Net cash provided by (used in) operating activities	$ —	$ (69.7)	$ 179.6	$ 107.0	$ —	$ 216.9
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(32.0)	—	(78.4)	—	(110.4)
Deposits utilized for purchases of property, plant and equipment	—	—	—	1.1	—	1.1
Investment in non-marketable securities	—	(1.5)	—	—	—	(1.5)
Proceeds from sales of property, plant and equipment	—	0.4	—	10.2	—	10.6
Net cash used in investing activities	—	(33.1)	—	(67.1)	—	(100.2)
Cash flows from financing activities:						
Intercompany loans	—	(479.7)	—	479.7	—	—
Intercompany loan repayments	—	688.1	(179.6)	(508.5)	—	—
Proceeds from debt issuance	—	0.5	—	—	—	0.5
Proceeds from issuance of common stock under the employee stock purchase plan	—	3.5	—	—	—	3.5
Proceeds from exercise of stock options	—	40.1	—	—	—	40.1
Repurchase of treasury stock	—	(55.2)	—	—	—	(55.2)
Dividends to minority shareholder of consolidated subsidiary	—	8.4	—	(12.5)	—	(4.1)
Equity injections from parent	—	—	8.4	—	—	8.4
Subsidiary declared dividend	—	—	(8.4)	—	—	(8.4)
Payment of capital lease obligation	—	(9.6)	—	(1.0)	—	(10.6)
Payment of debt issuance costs	—	(0.4)	—	—	—	(0.4)
Repayment of long term debt	—	(24.9)	—	(7.4)	—	(32.3)
Net cash provided by (used in) financing activities	—	170.8	(179.6)	(49.7)	—	(58.5)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.1	—	0.1
Net increase (decrease) in cash and cash equivalents	—	68.0	—	(9.7)	—	58.3
Cash and cash equivalents, beginning of period	—	186.7	—	82.1	—	268.8
Cash and cash equivalents, end of period	$ —	$ 254.7	$ —	$ 72.4	$ —	$ 327.1

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	Issuer	Guarantor Subsidiaries				
	ON Semiconductor Corporation (1)	SCI LLC	Other Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the nine months ended September 29, 2006						
Revenues	$ —	$ 407.0	$ 10.6	$ 1,374.4	$ (661.8)	$1,130.2
Cost of revenues	—	322.8	1.9	1,046.7	(672.5)	698.9
Gross profit	—	84.2	8.7	327.7	10.7	431.3
Research and development	—	16.7	8.7	49.3	—	74.7
Selling and marketing	—	37.2	0.6	29.1	—	66.9
General and administrative	—	(1.4)	(0.2)	66.2	—	64.6
Restructuring, asset impairments and other, net	—	4.5	—	(1.2)	—	3.3
Total operating expenses	—	57.0	9.1	143.4	—	209.5
Operating income (loss)	—	27.2	(0.4)	184.3	10.7	221.8
Interest expense, net	(2.9)	(12.5)	(6.8)	(9.3)	—	(31.5)
Other	—	4.2	—	(4.1)	—	0.1
Equity in earnings	187.6	162.8	3.0	—	(353.4)	—
Income (loss) before income taxes, and minority interests	184.7	181.7	(4.2)	170.9	(342.7)	190.4
Income tax provision	—	2.7	—	(6.5)	—	(3.8)
Minority interests	—	—	—	—	(1.9)	(1.9)
Net income (loss)	$ 184.7	$ 184.4	$ (4.2)	$ 164.4	$ (344.6)	$ 184.7
Net cash provided by operating activities	$ —	$ 70.5	$ 9.3	$ 141.4	$ —	$ 221.2
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(116.0)	(0.1)	(70.3)	—	(186.4)
Funds deposited for purchases of property, plant and equipment	—	—	—	(0.7)	—	(0.7)
Purchases of intangible assets	—	(11.9)	—	—		(11.9)
Purchase of minority interest	—	—	(9.2)	—	—	(9.2)
Proceeds from sales of held-to-maturity securities	—	(35.4)	—	—	—	(35.4)
Proceeds from sales of available-for-sale securities	—	2.3	—	—	—	2.3
Proceeds from sales of property, plant and equipment	—	0.9	—	0.4	—	1.3
Net cash provided by (used in) investing activities	—	(160.1)	(9.3)	(70.6)	—	(240.0)
Cash flows from financing activities:						
Intercompany loans	—	(367.6)	—	367.6	—	—
Intercompany loan repayments	—	450.0	—	(450.0)	—	—
Proceeds from debt issuance	—	—	—	11.0	—	11.0
Proceeds from issuance of common stock under the employee stock purchase plan	—	2.1	—	—	—	2.1
Proceeds from exercise of stock options and warrants	—	10.0	—	—	—	10.0
Dividends to minority shareholder of consolidated subsidiary	—	2.0	—	(3.4)	—	(1.4)
Equity injections from parent	—	—	2.0	—	—	2.0
Subsidiary declared dividend	—	—	(2.0)	—	—	(2.0)
Proceeds from issuance of common stock, net of issuance costs		76.3	—	—	—	76.3
Payment of capital lease obligation	—	(4.8)	—	—	—	(4.8)
Payment of debt issuance costs	—	(3.0)	—	—	—	(3.0)
Repayment of long term debt	—	(64.9)	—	(6.9)	—	(71.8)
Net cash provided by (used in) financing activities	—	100.1	—	(81.7)	—	18.4
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.5	—	0.5
Net increase (decrease) in cash and cash equivalents	—	10.5	—	(10.4)	—	0.1
Cash and cash equivalents, beginning of period	—	147.0	—	86.3	—	233.3
Cash and cash equivalents, end of period	$ —	$ 157.5	$ —	$ 75.9	$ —	$ 233.4

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

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Note 8: Common Stock and Treasury Stock

Income per share calculations for the quarter and nine months ended September 28, 2007 and September 29, 2006, are as follows (in millions, except per share data):

	Quarter Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Net income	$ 63.8	$ 76.8	$ 181.1	$ 184.7
Add: Amortization of debt issuance costs of zero coupon convertible subordinated notes, net of tax	—	0.1	—	0.8
Diluted net income applicable to common stock	$ 63.8	$ 76.9	$ 181.1	$ 185.5
Basic weighted average common shares outstanding	290.6	324.9	290.3	319.8
Add: Incremental shares for :				
Dilutive effect of equity based compensation	7.8	5.9	7.9	6.6
1.875% convertible senior subordinated notes	6.0	—	6.0	—
2.625% convertible senior subordinated notes	7.6	—	7.6	—
Convertible zero coupon senior subordinated notes	5.8	5.8	5.8	19.6
Diluted weighted average common shares outstanding	317.8	336.6	317.6	346.0
Income per common share				
Basic:	$ 0.22	$ 0.24	$ 0.62	$ 0.58
Diluted:	$ 0.20	$ 0.23	$ 0.57	$ 0.54

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period.

The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. Common shares relating to the employee stock options where the exercise price exceeded the average market price of the Company's common shares or the assumed exercise would have been anti-dilutive during these periods were also excluded from the diluted earnings per share calculation. The excluded option shares were 6.9 million and 6.8 million, for the quarter and nine months ended September 28, 2007, respectively, and 18.4 million and 14.6 million for the quarters and nine months ended September 29, 2006, respectively.

Treasury Stock is recorded at cost and is presented as a reduction of stockholders' equity in the accompanying consolidated financial statements. The Company used cash on hand to repurchase 5,000,000 shares of its common stock during the quarter ended June 29, 2007, at a price of $11.05 per share. These shares were acquired for general corporate purposes. Neither these shares, nor shares previously repurchased by the Company, had been reissued or retired as of September 28, 2007.

Note 9: Employee Stock Benefit Plans

Stock Options

There was an aggregate of 21.7 million and 18.5 million shares of common stock available for grant under the Company's stock option plans at September 28, 2007 and December 31, 2006, respectively. The fair value of

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each option grant is estimated on the date of grant using a lattice-based option valuation model. The weighted-average estimated fair value of stock options granted during the quarters and nine months ended September 28, 2007 was $4.88 and $3.70 per share, respectively, and during the quarters and nine months September 29, 2006 was $2.83 and $2.91 per share, respectively, and was calculated with the following weighted-average assumptions (annualized percentages):

	Quarter Ended September 28, 2007	Quarter Ended September 29, 2006	Nine Months Ended September 28, 2007	Nine Months Ended September 29, 2006
Volatility	46.1%	53.9%	41.4%	49.2%
Risk-free interest rate	4.4%	4.8%	4.5%	4.8%
Post-vesting forfeiture rate	7.7%	8.6%	8.1%	9.2%
Rate of exercise	38.4%	28.1%	36.2%	28.6%

The expected life for options granted during the quarters and nine months ended September 28, 2007 and September 29, 2006 derived from the lattice model was 4.2 years and 4.1 years, and 4.2 years and 4.0 years, respectively. Pre-vesting forfeitures were estimated to be approximately 12% for both the quarters and nine months ended September 28, 2007 and September 29, 2006, based on historical experience.

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

	Nine Months Ended September 28, 2007			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (In-The-Money)
Outstanding at December 31, 2006	27.3	$ 5.39		
Grants	5.8	9.42		
Exercises	(10.2)	3.99		
Forfeitures	(1.1)	7.45		
Outstanding at September 28, 2007	21.8	$ 7.02	7.1	$ 125.2
Exercisable at September 28, 2007	9.2	$ 6.55	5.1	$ 59.5

Additional information about stock options outstanding at September 28, 2007 with exercise prices less than or above $12.56 per share, the closing price at September 28, 2007, follows (number of shares in millions):

	Exercisable		Unexercisable		Total	
Exercise Prices	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Less than $12.56	7.9	$ 4.99	12.6	$ 7.37	20.5	$ 6.45
Above $12.56	1.3	$ 15.83	—	$ —	1.3	$ 15.83
Total outstanding	9.2	$ 6.55	12.6	$ 7.37	21.8	$ 7.02

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Restricted Stock Units

Restricted stock units vest over two to four years and are payable in shares of the Company's stock upon vesting. The following table presents a summary of the status of the Company's non-vested restricted stock units granted to certain officers, directors, and employees of the Company as of September 28, 2007, and changes during the nine months ended September 28, 2007, follows (number of shares in millions):

	Nine Months Ended September, 2007	
	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested shares of restricted stock units at December 31, 2006	0.3	$ 6.21
Granted	0.8	$ 10.25
Released	(0.1)	$ 6.21
Forfeited	(0.1)	$ 8.38
Nonvested shares of restricted stock units at September 28, 2007	0.9	$ 9.40

Employee Stock Purchase Plans

As of September 28, 2007, there were 2.4 million shares available for issuance under the Employee Stock Purchase Plan. The Company continues to use the Black-Scholes option-pricing model to calculate the fair value of shares issued under the 2000 Employee Stock Purchase Plan. The weighted-average fair value of shares issued under the Employee Stock Purchase Plan during the quarters and nine months ended September 28, 2007, $2.35 per share and $2.08 per share, respectively, and during the quarter and nine months ended September 29, 2006 was $1.51 per share and $1.45 per share, respectively. The weighted-average assumptions used in the pricing model are as follows:

	Quarter Ended		Nine Months Ended	
Employee Stock Purchase Plan	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Expected life (in years)	0.25	0.25	0.25	0.25
Risk-free interest rate	4.7%	5.0%	4.8%	4.7%
Volatility	33.0%	51.0%	40.0%	49.0%

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Share-Based Compensation Expense

Total estimated share-based compensation expense, related to the Company's stock options, restricted stock units and employee stock purchase plan, recognized for the quarter and nine months ended September 28, 2007 and September 29, 2006 was comprised as follows (in millions, except per share data):

	Quarter Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Cost of revenues	$ 1.2	$ 0.7	$ 3.3	$ 1.7
Research and development	0.8	0.5	2.0	1.2
Selling and marketing	0.7	0.6	1.9	1.6
General and administrative	1.4	1.1	3.7	2.7
Share-based compensation expense before income taxes	4.1	2.9	10.9	7.2
Related income tax benefits (1)	—	—	—	—
Share-based compensation expense, net of taxes	$ 4.1	$ 2.9	$ 10.9	$ 7.2
Net share-based compensation expense, per common share:				
Basic	$ 0.01	$ 0.01	$ 0.04	$ 0.02
Diluted	$ 0.01	$ 0.01	$ 0.03	$ 0.02

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

At September 28, 2007, total unrecognized estimated compensation cost net of estimated forfeitures related to non-vested stock options and non-vested restricted stock units granted prior to that date was $24.8 million and $6.1 million, respectively. The total intrinsic value of stock options exercised during the quarter and nine months ended September 28, 2007 was $16.7 million and $65.2 million, respectively. The Company recorded cash received from the exercise of stock options of $11.3 million and $40.1 million and cash from the issuance of shares under the Employee Stock Purchase Plan of $1.2 million and $3.5 million and no related tax benefits during the quarter and nine months ended September 28, 2007, respectively.

Note 10: Commitments and Contingencies

Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of September 28, 2007 (in millions):

Remainder of 2007 (1)	$ 3.8
2008	11.0
2009	8.6
2010	6.1
2011	2.7
Thereafter	3.5
Total	$ 35.7

(1) Minimum payments have not been reduced by minimum sublease rentals of $0.4 million due in the future under subleases. Minimum payments include the interest portion of payments for capital lease obligations.

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Other Contingencies

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

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

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

Indemnification Contingencies

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

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

The Company faces risk of exposure to warranty and product liability claims in the event that its products fail to perform as expected or such failure of its products results, or is alleged to result, in bodily injury or property damage (or both). In addition, if any of the Company's designed products are alleged to be defective, the Company may be required to participate in their recall. In one particular case, the Company has agreed to indemnify a major customer for valid warranty claims on the Company's products sold, not to exceed two and one half times the total annual sales.

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

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

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

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

Legal Matters

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

Securities Class Action Litigation

During the period July 5, 2001 through July 27, 2001, the Company was named as a defendant in three shareholder class action lawsuits that were filed in federal court in New York City against the Company and certain of the Company's former officers, current and former directors and the underwriters for the Company's 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 ("District Court"). On April 19, 2002, the plaintiffs filed a single consolidated amended complaint that supersedes the individual complaints originally filed. The amended complaint alleges, among other things, that the underwriters of the Company's initial public offering improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of

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the Company's common stock in the aftermarket as conditions of receiving shares in the Company's initial public offering. The amended complaint further alleges that these supposed practices of the underwriters should have been disclosed in the Company's initial public offering prospectus and registration statement. The amended complaint alleges violations of both the registration and antifraud provisions of the federal securities laws and seeks unspecified damages. The Company understand that various other plaintiffs have filed substantially similar class action cases against approximately 300 other publicly-traded companies and their public offering underwriters in New York City, which have all been transferred, along with the case against the Company, to a single federal district judge for purposes of coordinated case management. The Company believes that the claims against the Company are without merit and have defended, and intend to continue to defend, the litigation vigorously. The litigation process is inherently uncertain, however, and the Company cannot guarantee that the outcome of these claims will be favorable for the Company.

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

In June 2003, upon the determination of a special independent committee of our Board of Directors, the Company elected to participate in a proposed settlement with the plaintiffs in this litigation. Had it been approved by the District Court, this proposed settlement would have resulted in the dismissal, with prejudice, of all claims in the litigation against the Company and against any of the other issuer defendants who elected to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. This proposed settlement was conditioned on, among other things, a ruling by the District Court that the claims against the Company and against the other issuers who had agreed to the settlement would be certified for class action treatment for purposes of the proposed settlement, such that all investors included in the proposed classes in these cases would be bound by the terms of the settlement unless an investor opted to be excluded from the settlement in a timely and appropriate fashion.

On December 5, 2006, the U.S. Court of Appeals for the Second Circuit ("Court of Appeals") issued a decision in *In re Initial Public Offering Securities Litigation* that six purported class action lawsuits containing allegations substantially similar to those asserted against the Company could not be certified as class actions due, in part, to the Court of Appeals' determination that individual issues of reliance and knowledge would predominate over issues common to the proposed classes. On January 8, 2007, the plaintiffs filed a petition seeking rehearing *en banc* of this ruling. On April 6, 2007 the Court of Appeals denied the plaintiffs' petition for rehearing of the Court of Appeals' December 5, 2006 ruling. The Court of Appeals, however, noted that the plaintiffs remained free to ask the District Court to certify classes different from the ones originally proposed which might meet the standards for class certification that the Court of Appeals articulated in its December 5, 2006 decision. The plaintiffs have since moved for certification of different classes in the District Court, and that motion remains pending.

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In light of the Court of Appeals' December 5, 2006 decision regarding certification of the plaintiffs' claims, the District Court entered an order on June 25, 2007 terminating the proposed settlement between the plaintiffs and the issuers, including us. Because any possible future settlement with the plaintiffs, if a settlement were ever to be negotiated and ultimately agreed to, would involve the certification of a class action for settlement purposes, the impact of the Court of Appeals' rulings on the possible future settlement of the claims against the Company cannot now be predicted.

Now that the proposed settlement has been terminated, the Company intends to continue to defend the litigation vigorously. While the Company can make no promises or guarantees as to the outcome of these proceedings, the Company believes that the final result of this action will have no material effect on the Company's consolidated financial position, results of operations or cash flows.

Intellectual Property Matter

The Company faces risk to exposure from claims of infringement of the intellectual property rights of others. In the ordinary course of business, the Company receives letters asserting that its products or components breach another party's rights. These threats may seek that the Company make royalty payments, that we stop use of such rights, or other remedies. The Company is in binding arbitration on one such claim under an existing license agreement. The arbitration hearing is scheduled for later this year, at which time the panel will determine if the Company must pay the licensor accrued and/or future royalty payments. The Company believes it has credible defenses to this claim. The Company estimates that the amount of disputed royalties at September 28, 2007 was approximately $7.5 million, with future royalties accruing at the rate of approximately $2 million per quarter (the patent under which the claims have been made, however, expires on or about July 23, 2008). The Company believes that, even if it were required to make these royalty payments, the payment of any accrued royalty due and related costs and expenses would not have a material adverse effect on the Company's financial position or liquidity, and the payment of any future royalties not yet earned would not have a material adverse effect on the Company's related ongoing results of operations.

Note 11: Recent Accounting Pronouncements

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

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, although earlier adoption is permitted. The Company is currently evaluating the impact of SFAS No. 159 on its financial position and results of operations.

Note 12: Related Party

As described in Note 1 "Background and Basis of Presentation," on August 4, 1999, certain related transactions were effected pursuant to an agreement among the Company, SCI LLC and TPG. As of December 31, 2006, TPG owned approximately 33%, or 95.4 million shares, of the Company's outstanding shares of common stock. During the quarter ended June 29, 2007, TPG sold all its remaining shares of the Company's common stock.

During the six months ended June 29, 2007, the Company incurred approximately $0.2 million of costs and expenses on behalf of TPG in connection with prospectus supplements and private offerings for the sale of approximately 95.4 million shares of the Company's common stock, which were owned by TPG.

Note 13: Segment Information

The Company is organized into five operating segments, which also represent five reporting segments: automotive and power regulation, computing, digital and consumer, standard products (which includes products that are sold in many different end-markets) and manufacturing services. Each of the Company's major product lines has been examined and each product line has been assigned to a segment, as illustrated in the table below, based on the Company's operating strategy. Because many products are sold into different end markets, the total revenue reported for a segment is not indicative of actual sales in the end market associated with that segment, but rather is the sum of the revenue from the product lines assigned to that segment. The Company's manufacturing services, in which the Company manufactures parts for other semiconductor companies, principally in the newly acquired Gresham, Oregon facility, are reported in the manufacturing services segment. These segments represent the Company's view of the business and as such are used to evaluate progress of major initiatives.

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

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The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company does not specifically identify and allocate any assets by operating segment. The Company evaluates performance based on gross profit as well as income or loss from operations before interest, nonrecurring gains and losses, foreign exchange gains and losses, income taxes and certain other unallocated expenses.

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

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

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Information about segments for the quarter and nine months ended September 28, 2007 and for the quarter and nine months ended September 29, 2006 is as follows (in millions):

	Automotive & Power Regulation	Computing Products	Digital & Consumer Products	Standard Products	Manufacturing Services	Total
Quarter ended September 28, 2007:						
Revenues from external customers	$ 113.1	$ 93.8	$ 46.2	$ 128.0	$ 21.8	$ 402.9
Segment gross profit	$ 45.1	$ 32.4	$ 25.8	$ 55.6	$ 0.5	$ 159.4
Segment operating income	$ 22.2	$ 14.2	$ 14.7	$ 37.0	$ 0.2	$ 88.3
Quarter ended September 29, 2006:						
Revenues from external customers	$ 107.8	$ 93.0	$ 42.0	$ 129.4	$ 48.7	$ 420.9
Segment gross profit	$ 46.5	$ 33.9	$ 21.4	$ 54.4	$ 11.6	$ 167.8
Segment operating income	$ 24.5	$ 18.0	$ 9.4	$ 35.4	$ 10.9	$ 98.2

	Automotive & Power Regulation	Computing Products	Digital & Consumer Products (1)	Standard Products (1)	Manufacturing Services	Total
Nine months ended September 28, 2007:						
Revenues from external customers	$ 323.0	$ 255.3	$ 131.3	$ 375.1	$ 73.6	$1,158.3
Segment gross profit (loss)	$ 126.9	$ 93.2	$ 70.4	$ 163.4	$ (3.4)	$ 450.5
Segment operating income (loss)	$ 59.1	$ 41.2	$ 37.1	$ 109.2	$ (5.5)	$ 241.1
Nine months ended September 29, 2006:						
Revenues from external customers	$ 314.4	$ 254.0	$ 118.3	$ 380.0	$ 63.5	$1,130.2
Segment gross profit	$ 133.1	$ 90.0	$ 61.6	$ 159.6	$ 14.7	$ 459.0
Segment operating income	$ 69.9	$ 45.6	$ 28.1	$ 100.3	$ 13.6	$ 257.5

(1) Segment revenues from external customers, gross profit and operating income for the nine months ended September 29, 2006 has been recast to reflect the alignment that existed at September 28, 2007, for comparability purposes. Specifically, certain product families previously incorrectly aligned under the Standard Products Group have been realigned under the Digital and Consumer Products Group.

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

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

	Quarter Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Gross profit for reportable segments	$ 159.4	$ 167.8	$ 450.5	$ 459.0
Unallocated amounts:				
Other unallocated manufacturing costs	(3.8)	(7.4)	(12.3)	(27.7)
Gross profit	$ 155.6	$ 160.4	$ 438.2	$ 431.3
Operating income for reportable segments	$ 88.3	$ 98.2	$ 241.1	$ 257.5
Unallocated amounts:				
Restructuring, asset impairment and other, net	(2.0)	—	(2.0)	(3.3)
Other unallocated manufacturing costs	(3.8)	(7.4)	(12.3)	(27.7)
Other unallocated operating expenses	(9.3)	(2.6)	(19.4)	(4.7)
Operating income	$ 73.2	$ 88.2	$ 207.4	$ 221.8

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

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

	Quarter Ended	
	September 28, 2007	September 29, 2006
United States	$ 90.3	$ 122.0
The Other Americas	0.8	1.0
United Kingdom	57.4	57.9
China	179.6	150.3
Singapore	38.4	43.0
The Other Asia/Pacific	36.4	46.7
Total Revenues	$ 402.9	$ 420.9

	Nine Months Ended	
	September 28, 2007	September 29, 2006
United States	$ 284.3	$ 289.8
The Other Americas	2.1	2.9
United Kingdom	172.1	169.1
China	474.5	411.3
Singapore	111.3	120.8
The Other Asia/Pacific	114.0	136.3
Total Revenues	$ 1,158.3	$ 1,130.2

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

For the quarter and nine months ended September 28, 2007, one of the Company's customers accounted for 10% and 11% of the Company's total revenues, respectively. For the quarter ended September 29, 2006, excluding manufacturing services customers, two of the Company's customers accounted for 12% and 10% of the Company's total revenues. For the nine months ended September 29, 2006, one of the Company's customers accounted for 12% of the Company's total revenues.

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

	September 28, 2007	December 31, 2006
China	$ 109.0	$ 105.5
United States	165.9	169.7
Europe	112.5	101.9
Malaysia	98.9	91.0
Japan	67.0	66.6
The Other Asia/Pacific	53.1	40.0
The Other Americas	2.1	3.4
	$ 608.5	$ 578.1

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

You should read the following discussion in conjunction with our audited historical consolidated financial statements, which are included in our Form 10-K, filed with the SEC on February 23, 2007 and our unaudited consolidated financial statements for the fiscal quarter ended September 28, 2007 included elsewhere in this Form 10-Q. Management's Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks, uncertainties and other factors. Actual results could differ materially because of certain factors discussed below or elsewhere in this Form 10-Q. See section entitled "1A Risk Factors."

Executive Overview

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

Industry Overview

We participate in unit and revenue surveys and use data summarized by the World Semiconductor Trade Statistics ("WSTS") group to evaluate overall semiconductor market trends and also to track our progress against the total market in the areas we provide semiconductor components. The most recently published estimates of WSTS project a compound annual growth rate in our total addressable market of approximately 6.4% during 2007 through 2010. These are not our projections and may not be indicative of actual results.

Business and Company Overview

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

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

Our extensive portfolio of devices enables us to offer advanced integrated circuits and the "building block" components that deliver system level functionality and design solutions. Our product portfolio currently comprises approximately 28,800 products and we shipped approximately 23.8 billion units in the first nine months of 2007 as compared to approximately 22.9 billion units in the first nine months of 2006. We specialize in micro packages, which offer increased performance characteristics while reducing the critical board space inside today's ever shrinking electronic devices. We believe that our ability to offer a broad range of products provides our customers with single source purchasing on a cost-effective and timely basis.

We are organized into five operating segments, which also represent five reporting segments: automotive and power regulation, computing, digital and consumer, standard products (which include products that are sold in many different end-markets) and manufacturing services. Each of our major product lines has been assigned to a segment, as illustrated in the table below, based on our operating strategy. Because many products are sold into different end markets, the total revenue reported for a segment is not indicative of actual sales in the end market associated with that segment, but rather is the sum of the revenues from the product lines assigned to that segment. Our manufacturing services, in which we manufacture parts for other semiconductor companies, principally in our newly acquired Gresham, Oregon facility, are reported in the manufacturing services segment. These segments represent our view of the business and as such are used to evaluate progress of major initiatives. From time to time we reassess the alignment of our product families and devices to our operating segments and may move product families or individual devices from one operating segment to another.

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

We have approximately 175 direct customers worldwide, and we also service approximately 212 significant original equipment manufacturers indirectly through our distributor and electronic manufacturing service provider customers. Our direct and indirect customers include: (1) leading original equipment manufacturers in a broad variety of industries, such as Apple, Continental Automotive Systems, Hewlett Packard, Microsoft, Intel, Motorola, Seagate, Siemens and Sony; (2) electronic manufacturing service providers, such as Flextronics, Jabil and Solectron; and (3) global distributors, such as Arrow, Avnet, EBV Elektronik, Future, Solomon Enterprise and World Peace.

We currently have major design operations in Arizona, Rhode Island, Texas, Oregon, China, Slovakia, the Czech Republic, Korea, and France, and we currently operate manufacturing facilities in Arizona, Oregon, China, the Czech Republic, Japan, Malaysia, the Philippines, and Slovakia. In the first quarter of 2007, we announced the planned closing of one of our Arizona manufacturing facilities for cost savings purposes. The wafer manufacturing that takes place at this facility will be transferred to our other manufacturing facilities. We plan to sell the wafer fabrication facility and associated land. We also continue to market additional unused portions of our property at our corporate headquarters in Arizona and plan to use some of the proceeds from the sale to upgrade portions of our corporate headquarters. During the second quarter of 2007 we entered into an agreement to sell three parcels of land totaling approximately 22 acres for approximately $12.3 million subject to various conditions and certain adjustments. If the sale is completed, at the originally contracted price, we expect to record gains totaling approximately $11.0 million over the next three to four quarters. The remaining property and buildings are currently being marketed for sale. We will maintain our headquarters offices and remaining manufacturing facilities on the portions of the property that are not for sale.

On May 15, 2006, we, through our principal domestic operating subsidiary, Semiconductor Components Industries, LLC ("SCI LLC"), purchased LSI Logic Corporation's ("LSI") Gresham, Oregon wafer fabrication facility, including real property, tangible personal property, certain intangible assets, other specified manufacturing equipment and related information. The purchase of the Gresham wafer facility significantly enhances our internal manufacturing capabilities. With this facility, we have gained process development engineers, operational expertise and process development know-how to help enable us to develop a larger mix of high volume, low cost, high-performance submicron analog and digital power products down to the 0.18 micron level, with toolset capabilities down to the 0.13 micron level in the future.

As of December 31, 2006, Texas Pacific Group ("TPG") owned approximately 33%, or 95.4 million shares, of our outstanding shares of common stock. During the second quarter of 2007, TPG sold all its remaining shares of our common stock.

We used cash on hand to repurchase 5,000,000 shares of our common stock during the second quarter of 2007, at a price of $11.05 per share. These shares were acquired for general corporate purposes. Neither these shares, nor shares previously repurchased by us, had been reissued or retired as of September 28, 2007.

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

During the third quarter of 2007, we experienced an increase in the end market unit demand, partially offset by price decreases, which resulted in increased revenue compared to our previous quarter. We expect our fourth quarter product revenues to grow slightly thereby indicating we are in the growth phase of the cycle. However, the demand appears to be more seasonal in nature and not an indication of a strong growth cycle.

New Product Innovation

As a result of the success of our research and development initiatives, excluding the introduction of lead-free products, we introduced 158 new product families in 2006 and an additional 110 new product families in the first nine months of 2007. Our new product development efforts continue to be focused on building solutions in power management that appeal to customers in focused market segments and across multiple high growth applications. In light of the recent acquisition of the Gresham, Oregon wafer fabrication facility, we are increasing our research and development in deep sub micron power management solutions to further differentiate us from our competition. As always, it is our practice to regularly re-evaluate our research and development spending, to assess the deployment of resources and to review the funding of high growth technologies regularly. We deploy people and capital with the goal of maximizing our investment in research and development in order to position us for continued growth. As a result, we often invest opportunistically to refresh existing products in our commodity logic, analog, and discrete products. We invest in these initiatives when we believe there is a strong customer demand or opportunities to innovate our current portfolio in high growth markets and applications.

Cost Savings and Restructuring Activities

We continue to implement profitability enhancement programs to improve our cost structure and, as a result, we expect to rank, as compared to our primary competitors, among the lowest in terms of cost structure. During the first quarter of 2007, we announced plans to consolidate manufacturing efforts with the closing of one of our manufacturing facilities at our Phoenix, Arizona location. The wafer manufacturing that takes place at this facility will be transferred to our off shore low cost manufacturing facilities, and we expect this transfer to be completed during the last two fiscal quarters of 2008. After we have completed the transfer to other facilities, we plan to exit the wafer fabrication facility at our Phoenix location, which is currently under agreement to be sold. It is anticipated that approximately 80 employees will be terminated as a result of this consolidation effort, in addition to approximately 30 positions that will be eliminated through normal attrition. We expect the full annual cost savings from this consolidation to be at least $7.0 million to $9.0 million beginning in the fourth quarter of 2008.

Also in connection with this activity, during the third quarter of 2007 we announced reductions in factory support functions at our Phoenix, Arizona and Gresham, Oregon locations which resulted in the elimination or transfer of 62 positions. We expect the full annual cost savings from this announcement to be approximately $5.9 million beginning in the fourth quarter of 2008.

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

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

Debt Reduction and Financing Activities

Since the Recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. During 2002 and 2003, we engaged in several debt refinancing transactions, which extended a portion of our debt maturities. Since 2003, however, we began undertaking measures to reduce our long-term debt and related interest costs. As a result of these measures, we reduced our total debt from $1,302.9 million as of December 31, 2003 to $1,139.5 million as of September 28, 2007. Similarly, our 2003 average quarterly interest expense of $37.8 million has declined, and we recorded $9.6 million of interest expense in the third quarter of 2007. Also, see “Liquidity and Capital Resources” and Note 7 “Long-Term Debt” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Outlook

Based upon booking trends, backlog levels, anticipated manufacturing services revenue and estimated turns levels, we anticipate that total revenues will be approximately flat to up 2% in the fourth quarter of 2007 as compared to total revenues of $402.9 million in the third quarter of 2007. We anticipate that approximately $22.0 million of our total revenues will come from manufacturing services revenues during the fourth quarter of 2007. Backlog levels at the beginning of the fourth quarter of 2007 were up from backlog levels at the beginning of the third quarter of 2007, and represented over 90 percent of our anticipated fourth quarter 2007 revenues. We expect average selling prices will be down approximately two percent in the fourth quarter of 2007 as compared to the third quarter of 2007. We expect our product gross margin and our total gross margin in the fourth quarter of 2007 to be approximately flat with the third quarter of 2007. We currently expect our stock-based compensation expense to be approximately $5.0 million in the fourth quarter of 2007.

For the fourth quarter of 2007, we expect selling and marketing and general and administrative expenses at approximately 11% to 12% of revenues and research and development expenses at approximately 8% to 9% of revenues. We anticipate that net interest expense and income tax provision will be approximately $6.5 million and $2.5 million, respectively, for the fourth quarter of 2007. Based on the stock price of our common stock as of the end of the third quarter of 2007, our fully diluted common shares outstanding would be approximately 319 million in the fourth quarter of 2007. We anticipate cash capital expenditures will be approximately $20 million in the fourth quarter of 2007.

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Results of Operations

Quarter Ended September 28, 2007 Compared to Quarter Ended September 29, 2006

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements for the quarters ended September 28, 2007 and September 29, 2006. The amounts in the following table are in millions:

	Quarter Ended		
	September 28, 2007	September 29, 2006	Dollar Change
Product revenues	$ 381.1	$ 372.2	$ 8.9
Manufacturing service revenue	21.8	48.7	(26.9)
Net revenues	402.9	420.9	(18.0)
Cost of product revenues	226.0	223.2	2.8
Cost of manufacturing revenues	21.3	37.3	(16.0)
Gross profit	155.6	160.4	(4.8)
Operating expenses:			
Research and development	34.4	25.9	8.5
Selling and marketing	24.4	23.2	1.2
General and administrative	21.6	23.1	(1.5)
Restructuring, asset impairments and other, net	2.0	—	2.0
Total operating expenses	82.4	72.2	10.2
Operating income	73.2	88.2	(15.0)
Other income (expenses), net:			
Interest expense	(9.6)	(13.8)	4.2
Interest income	3.1	3.6	(0.5)
Other	0.2	(0.7)	0.9
Loss on debt prepayment	—	—	—
Other income (expenses), net	(6.3)	(10.9)	4.6
Income before income taxes and minority interests	66.9	77.3	(10.4)
Income tax provision	(2.4)	—	(2.4)
Minority interests	(0.7)	(0.5)	(0.2)
Net income	$ 63.8	$ 76.8	$(13.0)

Revenues

Net revenues were $402.9 million and $420.9 million during the quarters ended September 28, 2007 and September 29, 2006, respectively. The decrease from the third quarter of 2006 to the third quarter of 2007 was due primarily to decreased manufacturing services revenue resulting from the expected decrease in volume purchases from LSI. The revenues by reportable segment were as follows (dollars in millions):

	Quarter Ended September 28, 2007	As a % Revenue (1)	Quarter Ended September 29, 2006	As a % Revenue	Dollar Change	% Change
Automotive & Power Regulation	$ 113.1	28.1%	$ 107.8	25.6%	$ 5.3	4.9%
Computing Products	93.8	23.3%	93.0	22.1%	0.8	0.9%
Digital & Consumer Products	46.2	11.5%	42.0	10.0%	4.2	10.0%
Standard Products	128.0	31.8%	129.4	30.7%	(1.4)	(1.1%)
Manufacturing Services	21.8	5.4%	48.7	11.6%	(26.9)	(55.2%)
Total Revenues	$ 402.9		$ 420.9		$ (18.0)	

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

Revenues from automotive and power regulation increased $5.3 million, or 4.9%, in the third quarter of 2007 as compared to the third quarter of 2006. The increase is attributed to a increase in revenues from AC to DC conversion, analog automotive, auto power, and DC to DC conversion products, partially offset by decreases in LDO and voltage regulator products.

Revenues from computing products increased $0.8 million, or 0.9%, in the third quarter of 2007 as compared to the third quarter of 2006. The increase is attributed to an increase in revenues from power switching and low and medium voltage MOSFET products, offset by decreases from signal and interface products.

Revenues from digital and consumer products increased $4.2 million, or 10.0%, in the third quarter of 2007 as compared to the third quarter of 2006. This increase is due to an increase in revenues from analog switches, low voltage, and filter products.

Revenues from standard products decreased $1.4 million, or 1.1%, in the third quarter of 2007 as compared to the third quarter of 2006. The decrease is primarily attributed to a decrease in revenues from standard logic, high frequency, and zener products, partially offset by increases to small signal and protection products.

Additionally, revenue declined in manufacturing services in the third quarter of 2007 as we experienced a decline in activity pursuant to an LSI wafer supply agreement.

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

	Quarter Ended September 28, 2007	As a % Revenue	Quarter Ended September 29, 2006	As a % Revenue
Americas	$ 91.1	23%	$ 123.0	29%
Asia Pacific	254.4	63%	240.0	57%
Europe	57.4	14%	57.9	14%
Total	$ 402.9	100%	$ 420.9	100%

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

For the quarter ended September 28, 2007, one of our customers accounted for 10% of the Company’s total revenues.

For the quarter ended September 29, 2006, excluding manufacturing services customers two of our customers accounted for 12% and 10% of the Company's total revenues, respectively, excluding manufacturing services revenue.

Approximately 16% of our revenues for the quarter ended September 28, 2007, are attributable to our various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation ("Delphi"), one of our automotive customers, and certain of Delphi's U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the quarter ended September 28, 2007, our revenues from Delphi accounted for less than 3% of our total revenues. During the quarter ended March 30, 2007, we sold, without discount, to a third party with recourse to us all of our pre-petition receivables due from Delphi totaling $5.4 million, all of which are subject to collection pending resolution of the reorganization proceedings.

Gross Profit

Our gross profit was $155.6 million in the third quarter of 2007 compared to $160.4 million in the third quarter of 2006. As a percentage of revenues, our gross profit was 38.6% in the third quarter of 2007 as compared to 38.1% in the third quarter of 2006. Gross profit decreased during the third quarter of 2007 as compared to the third quarter of 2006 primarily due to reduced gross profit from manufacturing services and decreased average selling prices, partially offset by cost savings from our profitability enhancement programs. Excluding manufacturing services, our gross profit increased $6.3 million during the third quarter of 2007 as compared to the third quarter of 2006. The gross profit by reportable segment in each of these quarters were as follows (dollars in millions):

	Quarter Ended September 28, 2007	As a % of Net Revenues	Quarter Ended September 29, 2006	As a % of Net Revenue	Dollar Change	% Change
Automotive & Power Regulation	$ 45.1	11.2%	$ 46.5	11.0%	(1.4)	-3.0%
Computing Products	32.4	8.0%	33.9	8.1%	(1.5)	-4.4%
Digital & Consumer Products	25.8	6.4%	21.4	5.1%	4.4	20.6%
Standard Products	55.6	13.8%	54.4	12.9%	1.2	2.2%
Manufacturing Services	0.5	0.1%	11.6	2.8%	(11.1)	-95.7%
Gross profit by segment	$ 159.4	39.6%	$ 167.8	39.9%	$ (8.4)	
Unallocated manufacturing costs	(3.8)	-0.9%	(7.4)	-1.8%		
Total gross profit	$ 155.6	38.6%	$ 160.4	38.1%		

Gross profit from automotive and power regulation decreased $1.4 million, or 3.0%, in the third quarter of 2007 as compared to the third quarter of 2006. The decrease can be attributed to a decrease in gross profit from rectifier and LDO and voltage regulation products, partially offset by increases from DC to DC conversion, AC to DC conversion, analog automotive, and auto power products.

Gross profit from computing products decreased $1.5 million, or 4.4%, in the third quarter of 2007 as compared to the third quarter of 2006. The decrease can be attributed to decreases in gross profit from power switching and signal and interface products.

Gross profit from digital and consumer products increased $4.4 million, or 20.6%, in the third quarter of 2007 as compared to the third quarter of 2006. The increase can be attributed to increases in gross profit from analog switches, low voltage, and filters products.

Gross profit from standard products increased $1.2 million, or 2.2%, in the third quarter of 2007 as compared to the third quarter of 2006. The increase can be attributed to increases in gross profit from small signal, protection, and zener products, partially offset by decreases from standard logic and thyristor products.

Gross profit from manufacturing services decreased $11.1 million in the third quarter of 2007 as compared to the third quarter of 2006 due to the increased volume of wafers sold to LSI.

Operating Expenses

Research and development expenses were $34.4 million in the third quarter of 2007 compared to $25.9 million in the third quarter of 2006, representing an increase of $8.5 million, or 32.8%. Research and development expenses represented 8.5% and 6.2% of revenues in the third quarter of 2007 and the third quarter of 2006, respectively. The increase in research and development expenses was attributable to increased employee salaries and wages and increased headcount and increased stock compensation expense, and costs from the porting of existing products to our Gresham production fab, to development of new products in our Gresham fab and the expansion of our digital production capacities in our Gresham fab.

Selling and marketing expenses were $24.4 million in the third quarter of 2007 compared to $23.2 million in the third quarter of 2006, representing an increase of $1.2 million, or 5.2%. Selling and marketing expenses represented 6.1% and 5.5% of revenues in the third quarter of 2007 and the third quarter of 2006, respectively. The increase in selling and marketing expenses is primarily attributable employee salaries and wages and increased stock compensation expense, partially offset by a decrease in employee performance bonuses.

General and administrative expenses were $21.6 million in the third quarter of 2007 compared to $23.1 million in the third quarter of 2006, representing a decrease of $1.5 million, or 6.5%. General and administrative expenses represented 5.4% and 5.5% of revenues in the third quarter of 2007 and the third quarter of 2006, respectively. The decrease in general and administrative expenses was primarily attributable to decreased employee performance bonuses partially offset by increased employee salaries and wages due to increased head count.

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

Restructuring, asset impairment and other, net were $2.0 million in the third quarter of 2007 compared to zero in the third quarter of 2006. In March 2007, we announced plans to consolidate manufacturing efforts with the closing of one of its manufacturing facilities at its Phoenix, Arizona location. The wafer manufacturing that takes place at this facility will be transferred to our offshore low-cost manufacturing facilities, expected to be completed by the end of the third quarter of 2008. It is anticipated that approximately 80 manufacturing employees will be terminated as a direct result of this consolidation effort. Also in connection with this activity, during the third quarter of 2007 we announced reductions in factory support functions at its Phoenix, Arizona and Gresham, Oregon locations which resulted in the elimination or transfer of 62 positions. These measures were initiated for cost savings purposes. Employees impacted by these announcements began to exit during the third quarter of 2007. All terminations and associated severance payments related to these activities are expected to be completed by the end of the third quarter of 2008. In September 2007 we recorded $2.0 million of employee separation charges related to these announcements, and we expect to record an additional $0.8 million through the end of the third quarter of 2008.

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Operating Income

Information about operating income from our reportable segments for the quarters ended September 28, 2007 and September 29, 2006 are as follows, in millions:

	Automotive & Power Regulation	Computing Products	Digital & Consumer Products	Standard Products	Manufacturing Services	Total
Quarter ended September 28, 2007:						
Segment operating income	$ 22.2	$ 14.2	$ 14.7	$ 37.0	$ 0.2	$88.3
Quarter ended September 29, 2006:						
Segment operating income	$ 24.5	$ 18.0	$ 9.4	$ 35.4	$ 10.9	$98.2

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

	Quarter Ended	
	September 28, 2007	September 29, 2006
Operating income for reportable segments	$ 88.3	$ 98.2
Unallocated amounts:		
Restructuring, asset impairment and other, net	(2.0)	—
Other unallocated manufacturing costs	(3.8)	(7.4)
Other unallocated operating expenses	(9.3)	(2.6)
Operating income	$ 73.2	$ 88.2

Interest Expense and Other

Interest expense was $9.6 million in the third quarter of 2007 compared to $13.8 million in the third quarter of 2006. The decrease in interest expense was primarily a result of interest savings during the third quarter of 2007 that resulted from the issuance of our 2.625% convertible bonds in December 2006 with a large portion (approximately $199.0 million) used to reduce our senior bank facilities bearing a 7% interest rate. Our average month-end long-term debt balance (including current maturities) in the third quarter of 2007 was $1,141.4 million with a weighted average interest rate of 3.4% compared to $1,042.4 million and a weighted average interest rate of 5.3% in the third quarter of 2006. See also “Liquidity and Capital Resources—Key Financing Events” for a description of our refinancing activities.

See Part I, Item 1 “Financial Statements,” Note 10 “Commitments and Contingencies” of this Form 10-Q for contingencies relating to other legal proceedings and matters including an intellectual property matter.

Provision for Income Taxes

Provision for income taxes was $2.4 million in the third quarter of 2007 compared to zero in the third quarter of 2006. The provision for the third quarter of 2007 included $2.0 million for income and withholding taxes of certain of our foreign operations and $0.4 million of interest on reserves for potential liabilities in foreign taxing jurisdictions. The provision for the third quarter of 2006 included $2.6 million charge for income and withholding taxes of certain of our foreign operations, offset by the receipt of $2.6 million of previously accrued income tax receivable that had been fully reserved.

Nine Months Ended September 28, 2007 Compared to Nine Months Ended September 29, 2006

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements for the nine months ended September 28, 2007 and September 29, 2006. The amounts in the following table are in millions:

	Nine Months Ended		
	September 28, 2007	September 29, 2006	Dollar Change
Product revenues	$ 1,084.7	$ 1,066.7	$ 18.0
Manufacturing service revenue	73.6	63.5	10.1
Net revenues	1,158.3	1,130.2	28.1
Cost of product revenues	643.1	650.1	(7.0)
Cost of manufacturing revenues	77.0	48.8	28.2
Gross profit	438.2	431.3	6.9
Operating expenses:			
Research and development	97.6	74.7	22.9
Selling and marketing	70.6	66.9	3.7
General and administrative	60.6	64.6	(4.0)
Restructuring, asset impairments and other, net	2.0	3.3	(1.3)
Total operating expenses	230.8	209.5	21.3
Operating income	207.4	221.8	(14.4)
Other income (expenses), net:			
Interest expense	(28.7)	(39.9)	11.2
Interest income	8.8	8.4	0.4
Other	(0.3)	0.1	(0.4)
Loss on debt prepayment	(0.1)	—	(0.1)
Other income (expenses), net	(20.3)	(31.4)	11.1
Income before income taxes and minority interests	187.1	190.4	(3.3)
Income tax provision	(4.4)	(3.8)	(0.6)
Minority interests	(1.6)	(1.9)	0.3
Net income	$ 181.1	$ 184.7	$ (3.6)

Revenues

Net revenues were $1,158.3 million and $1,130.2 million during the first nine months ended September 28, 2007 and September 29, 2006, respectively. The increase from the first nine months of 2006 to the first nine months of 2007 was primarily due to increased manufacturing services revenue resulting from the acquisition of LSI's Gresham, Oregon wafer fabrication facility, increased product volume, partially offset by a decrease in average selling prices. As indicated in the table below, the increase was most pronounced in the digital and consumer products and manufacturing services segments. The revenues by reportable segment were as follows (dollars in millions):

	Nine Months Ended September 28, 2007	As a % Revenue	Nine Months Ended September 29, 2006 (1)	As a % Revenue	Dollar Change	% Change
Automotive & Power Regulation	$ 323.0	27.9%	$ 314.4	27.8%	$ 8.6	2.7%
Computing Products	255.3	22.0%	254.0	22.5%	1.3	0.5%
Digital & Consumer Products	131.3	11.3%	118.3	10.5%	13.0	11.0%
Standard Products	375.1	32.4%	380.0	33.6%	(4.9)	(1.3%)
Manufacturing Services	73.6	6.4%	63.5	5.6%	10.1	15.9%
Total Revenues	$ 1,158.3		$ 1,130.2		$ 28.1	

(1) Segment revenues from external customers for the nine months ended September 29, 2006 has been recast to reflect the alignment that existed at September 28, 2007, for comparability purposes. Specifically, certain product families previously incorrectly aligned under the Standard Products Group have been realigned under the Digital and Consumer Products Group.

Revenues from automotive and power regulation increased $8.6 million, or 2.7%, in the first nine months of 2007 as compared to the first six months of 2006. The increase is attributed to an increase in revenues from AC to DC conversion, analog automotive and DC to DC conversion products, partially offset by decreases in LDO and voltage regulators.

Revenues from computing products increased $1.3 million, or 0.5%, in the first nine months of 2007 as compared to the first nine months of 2006. The increase is attributed to an increase in revenues from power switching products, partially offset by decreases in signal and interface products.

Revenues from digital and consumer products increased $13.0 million, or 11.0%, in the first nine months of 2007 as compared to the first nine months of 2006. This increase is due to an increase in revenues from analog switches, filters, low voltage and application specific interface products.

Revenues from standard products decreased $4.9 million, or 1.3%, in the first nine months of 2007 as compared to the first nine months of 2006. The decrease is primarily attributed to decreases in revenues from standard logic, high frequency, thyristor, bipolar power, and zener products, partially offset by increases in small signal and protection products.

Additionally, revenue growth in manufacturing services occurred for the nine months of 2007 as we enjoyed activity pursuant to an LSI wafer supply agreement during the whole window of time. In contrast we only enjoyed twenty two weeks of activity during the first nine months of 2006 due to the May 2006 purchase of the Gresham wafer fabrication facility.

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

	Nine Months Ended September 28, 2007	As a % Revenue	Nine Months Ended September 29, 2006	As a % Revenue
Americas	$ 286.4	25%	$ 292.7	26%
Asia Pacific	699.8	60%	668.4	59%
Europe	172.1	15%	169.1	15%
Total	$ 1,158.3	100%	$ 1,130.2	100%

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

For the nine months ended September 28, 2007 and September 29, 2006, one of our customers accounted for 11% and 12% of the Company’s total revenues, respectively.

Approximately 16% of our revenues for the nine months ended September 28, 2007, are attributable to our various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation (“Delphi”), one of our automotive customers, and certain of Delphi’s U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the nine months ended September 28, 2007, our revenues from Delphi accounted for less than 3% of our total revenues. During the quarter ended March 30, 2007, we sold, without discount, to a third party with recourse to us all of our receivables due from Delphi totaling $5.4 million, all of which are subject to collection pending resolution of the reorganization proceedings.

Gross Profit

Our gross profit was $438.2 million in the first nine months of 2007 compared to $431.3 million in the first nine months of 2006. As a percentage of revenues, our gross profit was 37.8% in the first nine months of 2007 as compared to 38.2% in the first nine months of 2006. Gross profit increased during the first nine months of 2007 as compared to the first nine months of 2006 primarily due to a reduction in depreciation expense of approximately $9.8 million resulting from a change in our estimate of the useful life of our machinery and equipment assets, partially offset by reduced gross profit from manufacturing services and declines in average selling prices. Excluding manufacturing services, our gross profit increased $25.0 million during the nine months ending September 28, 2007 compared to the nine months ending September 29, 2006. See Note 4 “Accounting Changes” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q. The gross profit by reportable segment in each of these quarters was as follows (dollars in millions):

	Nine Months Ended September 28, 2007	As a % of Net Revenues	Nine Months Ended September 29, 2006	As a % of Net Revenues	Dollar Change	% Change
Automotive & Power Regulation	$ 126.9	11.0%	$ 133.1	11.8%	$ (6.2)	-4.7%
Computing Products	93.2	8.0%	90.0	8.0%	3.2	3.6%
Digital & Consumer Products (1)	70.4	6.1%	61.6	5.5%	8.8	14.3%
Standard Products (1)	163.4	14.1%	159.6	14.1%	3.8	2.4%
Manufacturing Services	(3.4)	-0.3%	14.7	1.3%	(18.1)	-123.1%
Gross profit by segment	$ 450.5	38.9%	$ 459.0	40.6%	$ (8.5)	
Unallocated manufacturing costs	(12.3)	-1.1%	(27.7)	-2.5%		
Total gross profit	$ 438.2	37.8%	$ 431.3	38.2%		

(1) Segment gross profit from external customers for the nine months ended September 29, 2006 has been recast to reflect the alignment that existed at September 28, 2007, for comparability purposes. Specifically, certain product families previously incorrectly aligned under the Standard Products Group have been realigned under the Digital and Consumer Products Group.

Gross profit from automotive and power regulation decreased $6.2 million, or 4.7%, in the first nine months of 2007 as compared to the first nine months of 2006. The decrease can be attributed to decreased gross profit from rectifier, and LDO and voltage regulator products, partially offset by increases from AC to DC conversion, analog automotive, and DC to DC conversion products.

Gross profit from computing products increased $3.2 million, or 3.6%, in the first nine months of 2007 as compared to the first nine months of 2006. The increase can be attributed to increased gross profit from low and medium voltage MOSFET products, partially offset by decreases from power switching products.

Gross profit from digital and consumer products increased $8.8 million, or 14.3%, in the first nine months of 2007 as compared to the first nine months of 2006. The increase can be attributed to increases in gross profit from analog switches, filter, low voltage and application specific interface products.

Gross profit from standard products increased $3.8 million, or 2.4%, in the first nine months of 2007 as compared to the first nine months of 2006. The increase can be primarily attributed to an increases in gross profit from protection, small signal, and zener products, partially offset by decreases in standard logic, thyristor, high frequency, and bipolar power products.

Gross profit from manufacturing services decreased $18.1 million in the first nine months of 2007 as compared to the first nine months of 2006 due to the decreased volume of wafers sold to LSI.

Operating Expenses

Research and development expenses were $97.6 million in the first nine months of 2007 compared to $74.7 million in the first nine months of 2006, representing an increase of $22.9 million, or 30.7%. Research and development expenses represented 8.4% and 6.6% of revenues in the first nine months of 2007 and the first nine months of 2006, respectively. The increase in research and development expenses was attributable to increased employee salaries and wages and increased headcount and increased stock compensation expense, and costs from the porting of existing products to our Gresham fab, to development of new products in our Gresham fab and the expansion of our digital production capacities in our Gresham fab.

Selling and marketing expenses were $70.6 million in the first nine months of 2007 compared to $66.9 million in the first nine months of 2006, representing an increase of $3.7 million, or 5.5%. Selling and marketing expenses represented 6.1% and 5.9% of revenues in the first nine months of 2007 and the first nine months of 2006, respectively. The increase in selling and marketing expenses is primarily attributable to increased employee salaries and wages and increased stock compensation expense, partially offset by a decrease in employee performance bonuses.

General and administrative expenses were $60.6 million in the first nine months of 2007 compared to $64.6 million in the first nine months of 2006, representing a decrease of $4.0 million, or 6.2%. General and administrative expenses represented 5.2% and 5.7% of revenues in the first nine months of 2007 and the first nine months of 2006, respectively. The decrease in general and administrative expenses was attributable to decreases in employee performance bonus and consultant fees partially offset by increased employee salaries and wages from higher head count.

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

Restructuring, asset impairments and other, net were $2.0 million in the first nine months of 2007. In March 2007, we announced plans to consolidate manufacturing efforts with the closing of one of our manufacturing facilities at our Phoenix, Arizona location. The wafer manufacturing that takes place at this facility will be transferred to our offshore low-cost manufacturing facilities, expected to be completed by the end of the third quarter of 2008. It is anticipated that approximately 80 manufacturing employees will be terminated as a direct result of this consolidation effort. Also in connection with this activity, during the third quarter of 2007 we announced reductions in factory support functions at our Phoenix, Arizona and Gresham, Oregon which resulted in the elimination or transfer of 62 positions. These measures were initiated for cost savings purposes. Employees impacted by these announcements began to exit during the third quarter of 2007. All terminations and associated severance payments related to these activities are expected to be completed by the end of the third quarter of 2008. In September 2007, we recorded $2.0 million of employee separation charges related to these announcements, and expect to record an additional $0.8 million through the end of the third quarter of 2008.

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

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

The $1.4 million of net adjustments include $1.2 million reversal of employee separation charges reserve related to the previously planned transfer of wafer fabrication manufacturing operations from Malaysia to the

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United States. Due to the current increase in demand from customers, we decided to keep the wafer fabrication portion of this site open and the transfer to the United States was cancelled and the remaining $1.2 million reserve balance was reversed in June 2006.

Operating Income

Information about operating income from our reportable segments for the nine months ended September 28, 2007 and September 29, 2006 are as follows, in millions:

	Automotive & Power Regulation	Computing Products	Digital & Consumer Products (1)	Standard Products (1)	Manufacturing Services	Total
Nine months ended September 28, 2007:						
Segment operating income	$ 59.1	$ 41.2	$ 37.1	$ 109.2	$ (5.5)	$241.1
Nine months ended September 29, 2006:						
Segment operating income	$ 69.9	$ 45.6	$ 28.1	$ 100.3	$ 13.6	$257.5

(1) Segment operating income from external customers for the quarter ended September 29, 2006 has been recast to reflect the alignment that existed at September 28, 2007, for comparability purposes. Specifically, certain product families previously incorrectly aligned under the Standard Products Group have been realigned under the Digital and Consumer Products Group.

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

	Nine Months ended	
	September 28, 2007	September 29, 2006
Operating income for reportable segments	$ 241.1	$ 257.5
Unallocated amounts:		
Restructuring, asset impairment and other, net	(2.0)	(3.3)
Other unallocated manufacturing costs	(12.3)	(27.7)
Other unallocated operating expenses	(19.4)	(4.7)
Operating income	$ 207.4	$ 221.8

Interest Expense and Other

Interest expense was $28.7 million in the first nine months of 2007 compared to $39.9 million in the first nine months of 2006. The decrease in interest expense was primarily a result of interest savings during the first nine months of 2007 that resulted from the issuance of our 2.625% convertible bonds in December 2006 with a large portion (approximately $199.0 million) used to reduce our senior bank facilities bearing a 7% interest rate. Our average month-end long-term debt balance (including current maturities) in the first nine months of 2007 was $1,150.9 million with a weighted average interest rate of 3.3% compared to $1,056.1 million and a weighted average interest rate of 5.0% in the first nine months of 2006. See also “Liquidity and Capital Resources—Key Financing Events” for a description of our refinancing activities.

See Part I, Item 1 “Financial Statements,” Note 10 “Commitments and Contingencies” of this Form 10-Q for contingencies relating to other legal proceedings and matters including an intellectual property matter.

Provision for Income Taxes

Provision for income taxes was $4.4 million in the first nine months of 2007 compared to $3.8 million in the first nine months of 2006. The provision for the first nine months of 2007 included $6.1 million for income and withholding taxes of certain of our foreign operations and $1.4 million of interest on reserves for potential liabilities in foreign taxing jurisdictions, partially offset by the reversal of $3.1 million of previously accrued income taxes for anticipated audit issues. The provision for the first nine months of 2006 included income and withholding taxes of certain of our foreign operations. Due to our continuing domestic tax losses and tax rate differential in our foreign subsidiaries, our effective tax rate is lower than the U.S. statutory federal income tax rate. We continue to maintain a full valuation allowance on all of our domestic deferred tax assets.

Liquidity and Capital Resources

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

Cash Requirements

Commercial Commitments, Contractual Obligation, Off-Balance Sheet Arrangements and Indemnities

Our principal outstanding contractual obligations relate to our long-term debt, operating leases, pension obligations and purchase obligations. The following table summarizes our contractual obligations at September 28, 2007 and the effect such obligations are expected to have on our liquidity and cash flow in the future (in millions):

	Amount of Commitment by Expiration Period						
Commercial commitments	**Total**	**Remainder of 2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**
Standby letters of credit [1]	$ 3.3	$ 2.2	$ 1.1	$ —	$ —	$ —	$ —
Bank guarantees [1]	5.9	0.5	1.6	2.2	—	—	1.6
Commercial commitments	$ 9.2	$ 2.7	$ 2.7	$ 2.2	$ —	$ —	$ 1.6

	Payments Due by Period						
Contractual obligations	**Total**	**Remainder of 2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**
Long-term debt	$1,139.5	$ 6.8	$26.4	$57.3	$ 277.0	$ 14.0	$ 758.0
Operating leases [1] [2]	26.8	3.0	7.9	6.3	4.5	1.8	3.3
Other long-term obligations—pension plans	12.7	2.9	3.0	3.0	3.0	0.8	—
Purchase obligations [1]:							
Capital purchase obligations	50.6	15.9	30.4	1.9	1.2	1.2	—
Foundry and inventory purchase obligations	64.6	54.8	3.0	2.9	1.3	1.2	1.4
Mainframe support	4.5	2.1	1.7	0.7	—	—	—
Information technology and communication services	18.0	3.3	7.4	4.5	2.0	0.8	—
Other	10.0	4.7	3.3	1.7	0.3	—	—
Total contractual obligations	$1,326.7	$ 93.5	$83.1	$78.3	$ 289.3	$ 19.8	$ 762.7

(1) These represent our off-balance sheet arrangements.
(2) Includes the interest portion of payments for capital lease obligations.

Our long-term debt includes $174.1 million outstanding under senior bank facilities, approximately $260.0 million of zero coupon convertible senior subordinated notes due 2024, $95.0 million of 1.875% convertible senior subordinated notes due 2025, $484.0 million of 2.625% convertible senior subordinated notes due 2026, $9.5 million outstanding under a note payable to a Japanese bank, $50.4 million outstanding under loan facilities with two Chinese banks, $0.5 million note payable to Oregon State due 2009 and $66.0 million of capital lease obligations. See Note 7 “Long-Term Debt” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

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

Our other long-term contractual obligations consist of estimated payments to fund liabilities that have been accrued in our consolidated balance sheet for our foreign pension plans. (See Note 6 “Balance Sheet Information” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q).

Our balance of cash and cash equivalents was $327.1 million at September 28, 2007 and our cash flow from operations for the nine months ending September 28, 2007 was $216.9 million. We believe that our cash flows from operations, coupled with existing cash and cash equivalents will be adequate to fund our contractual obligation and other operating and capital needs through at least September 28, 2008. Our senior bank facilities include a $25.0 million revolving facility. Letters of credit totaling $3.3 million were outstanding under the revolving facility at September 28, 2007. We amended our primary foreign exchange hedging agreement to provide for termination if at any time the amount available under our revolving credit facility is less than $2.5 million.

Contingencies

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

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

We face risk of exposure to warranty and product liability claims in the event that our products fail to perform as expected or such failure of our products results, or is alleged to result, in bodily injury or property damage (or both). In addition, if any of our designed products are alleged to be defective, we may be required to participate in their recall. In one particular case, we have agreed to indemnify a major customer for valid warranty claims on our products sold, not to exceed two and one half times total annual sales.

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

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

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

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

See Part II, Item 1 "Legal Proceedings" of this Form 10-Q for possible contingencies related to legal matters and see Part I, Item 1 "Business—Government Regulation" of our annual report on Form 10-K for the fiscal year ending December 31, 2006 for information on certain environmental matters.

Sources and Uses of Cash

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

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

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

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

If we fail to generate sufficient cash from operations, we may need to raise additional equity or borrow additional funds to achieve our longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us. We believe that cash flow from operating activities coupled with existing cash and cash equivalents will be adequate to fund our operating and capital needs as well as enable us to maintain compliance with our various debt agreements through September 28, 2008. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

Operations

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

EBITDA

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a key indicator that management uses to evaluate our operating performance and cash flows. While EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as an indicator of operating performance or an alternative to cash flow, as a measure of liquidity, we believe this measure is useful to investors to assess our ability to meet our future debt service, capital expenditure and working capital requirements. This calculation may differ in method of calculation from similarly titled measures used by other companies. The following table sets forth our EBITDA for the three months ended September 28, 2007, June 29, 2007, and September 29, 2006, and the nine months ended September 28, 2007 and September 29, 2006, with a reconciliation to cash flows from operations, the most directly comparable financial measure under generally accepted accounting principles (in millions):

	Quarter Ended			Nine Months Ended	
	September 28, 2007	June 29, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Net income	$ 63.8	$ 63.3	$ 76.8	$ 181.1	$ 184.7
Plus:					
Depreciation and amortization	22.8	22.7	19.3	67.6	60.0
Interest expense	9.6	9.4	13.8	28.7	39.9
Interest income	(3.1)	(2.9)	(3.6)	(8.8)	(8.4)
Income tax provision	2.4	1.4	—	4.4	3.8
EBITDA	95.5	93.9	106.3	273.0	280.0
Increase (decrease):					
Interest expense	(9.6)	(9.4)	(13.8)	(28.7)	(39.9)
Interest income	3.1	2.9	3.6	8.8	8.4
Income tax provision	(2.4)	(1.4)	—	(4.4)	(3.8)
Gain on sale or disposal of fixed assets	(1.3)	(3.8)	0.5	(7.6)	0.3
Proceeds, net of gain, from termination of interest rate swaps	(0.3)	(0.6)	—	0.5	—
Non-cash impairment of property, plant, and equipment	—	—	—	—	4.7
Amortization of debt issuance costs	1.0	1.0	0.7	3.1	2.0
Provision for excess inventories	0.6	3.7	7.1	5.9	16.2
Non-cash portion of loss on debt prepayment	—	—	—	0.1	
Deferred income taxes	1.1	1.2	0.4	1.9	0.3
Stock compensation expense	4.1	3.5	2.9	10.9	7.2
Other	0.6	—	0.2	0.7	—
Changes in operating assets and liabilities	6.0	(35.6)	(18.4)	(47.3)	(54.2)
Net cash provided by operating activities	$ 98.4	$ 55.4	$ 89.5	$ 216.9	$ 221.2

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

Working Capital

Working capital fluctuates depending on end-market demand and our effective management of certain items such as receivables, inventory and payables. In times of escalating demand, our working capital requirements may increase as we purchase additional manufacturing inputs and increase production. Our working capital may also be affected by restructuring programs, which may require us to use cash for severance payments, asset transfers and contract termination costs. Our working capital, including cash, was $394.8 million at September 28, 2007. Our working capital, excluding cash, was $67.7 million at September 28, 2007, and has fluctuated between $(31.3) million and $82.4 million over the last eight quarter-ends.

The components of our working capital at September 28, 2007 and December 31, 2006 are set forth below (in millions), followed by explanations for changes between December 31, 2006 and September 28, 2007 for cash and cash equivalents and any other changes greater than $5 million:

	September 28, 2007	December 31, 2006	Change
Current assets			
Cash and cash equivalents	$ 327.1	$ 268.8	$ 58.3
Receivables, net	193.4	177.9	15.5
Inventories, net	216.5	212.7	3.8
Other current assets	41.0	34.3	6.7
Deferred income taxes	7.2	7.1	0.1
Total current assets	785.2	700.8	84.4
Current liabilities			
Accounts payable	134.9	165.7	(30.8)
Accrued expenses	105.4	111.7	(6.3)
Income taxes payable	2.1	3.2	(1.1)
Accrued interest	5.0	1.3	3.7
Deferred income on sales to distributors	115.7	123.2	(7.5)
Current portion of long-term debt	27.3	27.9	(0.6)
Total current liabilities	390.4	433.0	(42.6)
Net working capital	$ 394.8	$ 267.8	$127.0

The increase of $58.3 million in cash and cash equivalents is primarily due to $216.9 million in cash provided by operating activities, partially offset by $100.2 million in cash used in investing activities and $58.5 million in cash used in financing activities.

The increase of $15.5 million in accounts receivable, net is primarily the result of increased sales in the last two months of the third quarter 2007 as compared to the last two months of the fourth quarter 2006.

The increase of $6.7 million in other current assets is primarily the result of prepayments of annual insurance premiums.

The decrease of $30.8 million in accounts payable was mainly the result of the timing of payments at the respective period ends and a decrease in fixed asset additions during the third quarter of 2007 that remained unpaid as of September 28, 2007, as compared to the fourth quarter of 2006.

The decrease in accrued expenses of $6.3 million was primarily attributable to a decrease in accrued employee performance bonuses.

The decrease of $7.5 million in deferred income on sales at distributors was due to decreased inventory levels at distributors compared to December 31, 2006 with inventories at distributors down to 11.1 weeks as of September 28, 2007 compared to 11.4 weeks at December 31, 2006.

Long-Term Assets and Liabilities

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

Our manufacturing rationalization plans have included efforts to utilize our existing manufacturing assets and supply arrangements more efficiently. We believe that near-term access to additional manufacturing capacity, should it be required, could be readily obtained on reasonable terms through manufacturing agreements with third parties. Capital expenditures were $110.4 million during the first nine months of 2007 compared to $186.4 million during the first nine months of 2006 which included $94.6 million from the purchase of the Gresham fab from LSI. We will continue to look for opportunities to make strategic purchases in the future for additional capacity.

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

Key Financing Events

Overview

Since we became an independent company as a result of our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors.

During the second half of 2003, we began undertaking measures to reduce our long-term debt, reduce related interest costs and, in some cases, extend a portion of our debt maturities to continue to provide us additional operating flexibility. These measures continued into 2007, as described below:

October 2007 Philippine Loan

In October 2007, we entered into a five year loan agreement with the Bank of the Philippine Islands, Metropolitan Bank & Trust Company and Security Bank Corporation to finance capital expenditures and other corporate finance purposes. The loan amount of $25.0 million bears interest at the 3-month LIBOR rate plus 1% per annum. Sixty percent of the total loan amount will be repaid in nineteen equal quarterly installments with the balance to be repaid on the maturity date of the loan, which is October 11, 2012.

March 2007 Amendment to Senior Bank Facilities

In March 2007, we refinanced the term loans under our senior bank facilities to, among other things, reduce the interest rate from LIBOR plus 2.25% to LIBOR plus 1.75%. The amended and restated credit agreement also extended the maturity date of the facilities by approximately four years to 2013. Additionally, we repaid in the first quarter of 2007 approximately $23.9 million of the term loans under the senior bank facilities during the quarter. Terms within our senior bank facilities contain financial and other covenants more restrictive than those that are currently applicable should we exceed leverage and secured leverage ratios, as specified therein.

Oregon State Note

In January 2007, we recorded the receipt of $0.5 million of proceeds from a loan agreement and promissory note with the State of Oregon for the purpose of developing local business. The total loan is expected to be for $1.5 million and is to be disbursed in three (3) equal payments with each payment conditioned on the completion of certain requirements by us. The note is for the loan amount or so much thereof as has been disbursed. The note matures on July 31, 2009 and carries an annual interest rate of 5.0%. The State of Oregon will forgive all or a portion of the loan and accrued interest upon the satisfaction by us of certain conditions, including maintaining 400 full-time equivalent employees at the Gresham, Oregon facility for a specific period of time.

Debt Instruments, Guarantees and Related Covenants

The following table presents the components of long-term debt as of September 28, 2007 and December 31, 2006 (dollars in millions):

	September 28 2007	December 31, 2006
Senior Bank Facilities:		
Term Loan, interest payable quarterly at 6.948% and 7.6140%, respectively	$ 174.1	$ 198.9
Revolver	—	—
	174.1	198.9
Zero Coupon Convertible Senior Subordinated Notes due 2024 (1)	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025 (1)	95.0	95.0
2.625% Convertible Senior Subordinated Notes due 2026 (1)	484.0	484.0
2.25% Note payable to Japanese bank due 2008 through 2010, interest payable semi-annually	9.5	12.4
Loan with Chinese bank due 2009, interest payable quarterly at 6.438% and 6.565%, respectively	14.0	14.0
Loan with Chinese bank due 2009, interest payable quarterly at 6.438% and 6.565%, respectively	6.0	6.0
Loan with Chinese bank due 2007 through 2013, interest payable semi-annually at 6.600% and 6.580%, respectively	8.6	9.6
Loan with Chinese bank due 2007 through 2009, interest payable semi-annually at 6.570% and 6.600%, respectively	16.8	20.0
Loan with Chinese bank due 2009, interest payable semi-annually at 6.341% and 6.560%, respectively	5.0	5.0
5.0% Note payable to Oregon State due 2009	0.5	—
Capital lease obligations	66.0	71.1
	1,139.5	1,176.0
Less: Current maturities	(27.3)	(27.9)
	$ 1,112.2	$ 1,148.1

(1) The Zero Coupon Convertible Senior Subordinated Notes due 2024, the 1.875% Convertible Senior Subordinated Notes due 2025 and the 2.625% Convertible Senior Subordinated Notes due 2026 may be purchased by the Company at the option of the holders of the notes on April 15, 2010, December 15, 2012 and December 15, 2013, respectively.

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

SCI LLC, the primary domestic operating subsidiary of ON Semiconductor Corporation, is the borrower under our senior bank facilities. ON Semiconductor Corporation and our other domestic subsidiaries fully and unconditionally guarantee on a joint and several basis the obligations of the borrower under such facilities. ON Semiconductor Corporation is the issuer, and SCI LLC is a guarantor, of our zero coupon convertible senior subordinated notes due 2024, our 1.875% convertible senior subordinated notes due 2025 and our 2.625% convertible senior subordinated notes due 2026. Our other domestic subsidiaries fully and unconditionally guarantee on a joint and several basis the obligations of the issuers of such notes. None of our non-U.S. subsidiaries guarantee the senior bank facilities or the notes.

As of September 28, 2007, we were in compliance with the various covenants and other requirements contained in the credit agreement relating to our senior bank facilities and the indentures relating to our zero coupon convertible senior subordinated notes due 2024, our 1.875% convertible senior subordinated notes due 2025 and our 2.625% convertible senior subordinated notes due 2026. We believe that we will be able to comply with the various covenants and other requirements contained in such credit agreement and the indentures through September 28, 2008.

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

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

Terms within our senior bank facilities contain financial and other covenants more restrictive than those that are currently applicable should we exceed minimum leverage and secured leverage ratios, as specified therein.

Cash Management

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

Accounting Changes

During the quarter ended June 30, 2006, we commissioned a study of the manufacturing equipment at our other worldwide locations, which included an assessment of the estimated useful lives of those assets. The results of the study supported an estimated useful life of 10 years. We, factoring in the results of this study, have revised the estimated useful lives of our manufacturing equipment for depreciation purposes to 10 years as of the beginning of the second quarter of 2006 and on a prospective basis. The effect of this change was to decrease depreciation expense by $9.8 million, increase net income by $9.8 and increase for both basic and diluted net income per share by $0.03 for the nine months ended September 28, 2007.

We or one of our subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2001.

As of January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). As a result of the adoption of FIN 48, we recognized the cumulative effect of applying the provisions of FIN 48 as an $8.9 million increase to the opening balance of accumulated deficit as of January 1, 2007. The amount of unrecognized tax benefit as of January 1, 2007 was $25.8 million, including the $8.9 million adjustment.

The entire January 1, 2007 balance of $25.8 million relates to unrecognized tax positions that, if recognized, would affect our annual effective tax rate. Included in the $25.8 million balance of unrecognized tax benefits at January 1, 2007, is $12.9 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the twelve months following September 28, 2007, as a result of expiring statute of limitations.

We recognize interest and penalties accrued in relation to unrecognized tax benefits in tax expense. We had approximately $4.0 million for payment of interest and penalties accrued at January 1, 2007.

The impact of the adoption of FIN 48 the opening balance of accumulated deficit as of January 1, 2007 is as follows (in millions):

Accumulated deficit as of December 31, 2006	$(1,284.7)
Impact of adoption of FIN 48 on accumulated deficit as of January 1, 2007	(8.9)
Accumulated deficit as of January 1, 2007	(1,293.6)
Net income for the nine months ended September 28, 2007	181.1
Accumulated deficit as of September 28, 2007	$(1,112.5)

Critical Accounting Policies and Estimates

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

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

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

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

Inventories. We carry our inventories at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market and record provisions for slow moving inventories based upon a regular analysis of inventory on hand compared to historical and projected end user demand. These provisions can influence our results from operations. For example, when demand falls for a given part, all or a portion of the related inventory is reserved, impacting our cost of revenues and gross profit. If demand recovers and the parts previously reserved are sold, we will generally recognize a higher than normal margin. However, the majority of product inventory that has been previously reserved is ultimately discarded. Although we do sell some products that have previously been written down, such sales have historically been relatively consistent on a quarterly basis and the related impact on our margins has not been material, except for the sale of obsolete leaded parts during the first and second quarters of 2007 for approximately $4.0 million and $7.0 million, respectively.

Deferred Tax Valuation Allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In determining the amount of the valuation allowance, we consider estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction in which we operate. If we determine that we will not realize all or a portion of our remaining deferred tax assets, we will increase our valuation allowance with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. In the fourth quarter of 2001, a valuation allowance was established for our domestic deferred tax assets and a portion of our foreign deferred tax assets. Additionally, throughout 2003, 2004, 2005, 2006 and continuing into 2007, no incremental domestic deferred tax benefits were recognized. Our ability to utilize our deferred tax assets and the continuing need for a related valuation allowance are monitored on an ongoing basis.

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

Goodwill. We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred in accordance with the provisions of Statement of

Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"), which requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing our goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step is unnecessary. To date, our goodwill has not been considered to be impaired based on the results of this first step.

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

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

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

Valuation of Stock Compensation. The fair value of each option grant in 2005 and thereafter is estimated on the date of grant using a lattice-based option valuation model. In past years, we have used the Black-Sholes option-pricing model to calculate the fair value of its options. The lattice model uses: 1) a constant volatility; 2) an employee exercise behavior model (based on an analysis of historical exercise behavior); and 3) the treasury yield curve to calculate the fair value of shares issued each option grant. We use the Black-Scholes option-pricing model to calculate the fair value of shares issued under the 2000 Employee Stock Purchase Plan.

Recent Accounting Pronouncements

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

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, although earlier adoption is permitted. We are currently evaluating the impact of SFAS No. 159 to its financial position and results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

At September 28, 2007, our long-term debt (including current maturities) totaled $1,139.5 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $915.0 million. We do have interest rate exposure with respect to the $224.5 million outstanding balance on our variable interest rate debt. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next twelve months by approximately $1.1 million. However, some of this impact would be offset by additional interest earned on our cash and cash equivalents as a result of the higher rates.

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

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

Item 4. Controls and Procedures

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

Change in Internal Control Over Financial Reporting. There have been no changes in our internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended September 28, 2007 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

Securities Class Action Litigation

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

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

In June 2003, upon the determination of a special independent committee of our Board of Directors, we elected to participate in a proposed settlement with the plaintiffs in this litigation. Had it been approved by the District Court, this proposed settlement would have resulted in the dismissal, with prejudice, of all claims in the litigation against us and against any of the other issuer defendants who elected to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. This proposed settlement was conditioned on, among other things, a ruling by the District Court that the claims against us and against the other issuers who had agreed to the settlement would be certified for class action treatment for purposes of the proposed settlement, such that all investors included in the proposed classes in these cases would be bound by the terms of the settlement unless an investor opted to be excluded from the settlement in a timely and appropriate fashion.

On December 5, 2006, the U.S. Court of Appeals for the Second Circuit ("Court of Appeals") issued a decision in *In re Initial Public Offering Securities Litigation* that six purported class action lawsuits containing allegations substantially similar to those asserted against us could not be certified as class actions due, in part, to the Court of Appeals' determination that individual issues of reliance and knowledge would predominate over issues common to the proposed classes. On January 8, 2007, the plaintiffs filed a petition seeking rehearing *en banc* of this ruling. On April 6, 2007 the Court of Appeals denied the plaintiffs' petition for rehearing of the Court of Appeals' December 5, 2006 ruling. The Court of Appeals, however, noted that the plaintiffs remained free to ask the District Court to certify classes different from the ones originally proposed which might meet the standards for class certification that the Court of Appeals articulated in its December 5, 2006 decision. The plaintiffs have since moved for certification of different classes in the District Court, and that motion remains pending.

In light of the Court of Appeals' December 5, 2006 decision regarding certification of the plaintiffs' claims, the District Court entered an order on June 25, 2007 terminating the proposed settlement between the plaintiffs and the issuers, including us. Because any possible future settlement with the plaintiffs, if a settlement were ever to be negotiated and ultimately agreed to, would involve the certification of a class action for settlement purposes, the impact of the Court of Appeals' rulings on the possible future settlement of the claims against us cannot now be predicted.

Now that the proposed settlement has been terminated, we intend to continue to defend the litigation vigorously. While we can make no promises or guarantees as to the outcome of these proceedings, we believe that the final result of this action will have no material effect on our consolidated financial position, results of operations or cash flows.

See also Part I, Item 1 "Financial Statements," Note 10 "Commitments and Contingencies" of this Form 10-Q for contingencies relating to other legal proceedings and matters including an intellectual property matter.

Item 1A. Risk Factors

This 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. Many statements, other than statements of historical facts, included or incorporated in this Form 10-Q could be deemed forward-looking statements, particularly statements about our plans, strategies and prospects. 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 our current expectations and estimates, and 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, as discussed more herein, our revenues and operating performance, changes in overall economic conditions, the cyclical nature of the semiconductor industry, changes in demand for our products, changes in inventories at our customers and distributors, technological and product development risks, availability of raw materials, competitors' actions, pricing and gross margin pressures, loss of key customers, order cancellations or reduced bookings, changes in manufacturing yields, control of costs and expenses, significant litigation, risks associated with acquisitions and dispositions, risks associated with our substantial leverage and restrictive covenants in our debt agreements, risks associated with our international operations, the threat or occurrence of international armed conflict and terrorist activities both in the United

States and internationally, risks and costs associated with increased and new regulation of corporate governance and disclosure standards (including pursuant to Section 404 of the Sarbanes-Oxley Act of 2002), and risks involving environmental or other governmental regulation. Additional factors that could affect our future results or events are described under Part I, Item 1A. “Risk Factors” in our Form 10-K for the fiscal year ended December 31, 2006 and from time to time in our other Securities and Exchange Commission reports (including, without limitation, our Form 10-Q for the quarterly period ended June 29, 2007). Among other portions of this Form 10-Q, Management’s Discussion and Analysis of Financial Condition and Results of Operations and the unaudited consolidated financial statements and related notes should be read in conjunction with these risk and other factors we have identified for a full understanding of our operations and financial condition. Readers are cautioned not to place undue reliance on our forward-looking statements. We assume no obligation to update such information.

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

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

Exhibit No.	Description
10.1	Form of Restricted Stock Units Award Agreement for Certain U.S. Officers with Change of Control under the 2000 Stock Incentive Plan (1)
10.2	First Amendment to the ON Semiconductor 2007 Executive Incentive Plan dated August 16, 2007 (incorporated by reference from Exhibit 10.1 to the Corporation’s Form 8-K filed with the Commission on August 22, 2007)
10.3	First Amendment to the ON Semiconductor 2002 Employee Incentive Plan dated August 16, 2007 (incorporated by reference from Exhibit 10.2 to the Corporation’s Form 8-K filed with the Commission on August 22, 2007)
31.1	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
31.2	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)
32.1	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2)

(1) Filed herewith.
(2) Furnished herewith and not filed.

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SIGNATURES

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

Date: October 31, 2007		ON SEMICONDUCTOR CORPORATION (Registrant)
	By:	/s/ DONALD COLVIN **Donald Colvin** **Executive Vice President and Chief Financial Officer**

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(1) Filed herewith.
(2) Furnished herewith and not filed.

Exhibit 10.1

[FORM OF RSU AWARD AGREEMENT FOR CERTAIN U.S. OFFICER WITH CHANGE OF CONTROL]

RESTRICTED STOCK UNITS AWARD AGREEMENT
ON SEMICONDUCTOR
2000 STOCK INCENTIVE PLAN

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

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

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

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

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

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

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

- [__% of the Units will vest on [the first anniversary of the Grant Date] / [__________, 20__];
- An additional __% of the Units will vest on [the second anniversary of the Grant Date] / [__________, 20__]; and
- An additional __% of the Units will vest on [the third anniversary of the Grant Date] / [__________, 20__].]

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

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

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

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

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

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

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

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

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

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

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

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

13. ***Tax Withholding***. Pursuant to Section 17.3 of the Plan, unless otherwise provided by the Committee prior to the vesting of shares of the as set forth in the next sentence, the Grantee shall satisfy any federal, state, local, or foreign employment or income taxes due upon the vesting of shares of the Units (or otherwise) by having the Company withhold from those shares of Stock that the Grantee would otherwise be entitled to receive, a number of shares having a Fair Market Value equal to the minimum statutory amount necessary to satisfy the Company's applicable federal, state, local and foreign income and employment tax withholding obligations. In lieu of, and subject to, the above, the Committee may also permit the Grantee to satisfy any federal, state, local, or foreign employment or income taxes due upon the vesting of shares of the Units (or otherwise) by (i) personal check or other cash equivalent acceptable to the Company, (ii) permitting the Grantee to execute a same day sale of Stock pursuant to procedures approved by the Company, or (iii) such other method as approved by the Committee, all in accordance with applicable Company policies and procedures and applicable law.

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

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

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

ON SEMICONDUCTOR CORPORATION

By: ______________________________

Its: ______________________________

____

Grantee Signature

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Keith D. Jackson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ON Semiconductor Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

    d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2007

/s/ KEITH D. JACKSON

Keith D. Jackson
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald Colvin, certify that:

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

Date: October 31, 2007

/s/ DONALD A. COLVIN

Donald A. Colvin
Chief Financial Officer

Exhibit 32.1

Certification

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

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

The Quarterly Report on Form 10-Q for the fiscal quarter ended September 28, 2007 ("Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2007

/s/ KEITH D. JACKSON

Keith D. Jackson
President and Chief Executive Officer

Dated: October 31, 2007

/s/ DONALD A. COLVIN

Donald A. Colvin
Executive Vice President and
Chief Financial Officer

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