

---

---

**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 EXCHANGE ACT OF 1934**

For the quarterly period ended March 28, 2008

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

(Commission File Number) 000-30419

---

**ON SEMICONDUCTOR CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-3840979**  
(I.R.S. Employer  
Identification No.)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting Company)

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 May 2, 2008:

Title of Each Class  
**Common Stock, par value \$0.01 per share**

Number of Shares  
**396,659,245**

---

---

INDEX

**[Part I: Financial Information](#)**

<a href="#">Item 1. Financial Statements</a>	1
<a href="#">Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	39
<a href="#">Item 3. Quantitative and Qualitative Disclosures About Market Risk</a>	59
<a href="#">Item 4. Controls and Procedures</a>	59

**[Part II: Other Information](#)**

<a href="#">Item 1. Legal Proceedings</a>	60
<a href="#">Item 1A. Risk Factors</a>	62
<a href="#">Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</a>	64
<a href="#">Item 3. Defaults Upon Senior Securities</a>	64
<a href="#">Item 4. Submission of Matters to a Vote of Security Holders</a>	64
<a href="#">Item 5. Other Information</a>	64
<a href="#">Item 6. Exhibits</a>	65

<a href="#">Signatures</a>	67
----------------------------	----

<a href="#">Exhibit Index</a>	
-------------------------------	--

## 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)

	March 28, 2008	December 31, 2007
<b>Assets</b>		
Cash and cash equivalents	\$ 307.9	\$ 274.6
Receivables, net	245.7	175.2
Inventories, net	362.4	220.5
Other current assets	89.7	68.3
Deferred income taxes	—	6.7
Total current assets	<u>1,005.7</u>	<u>745.3</u>
Property, plant and equipment, net	734.2	614.9
Goodwill	730.1	172.4
Intangible assets, net	343.6	57.5
Other assets	58.7	47.5
Total assets	<u>\$ 2,872.3</u>	<u>\$ 1,637.6</u>
<b>Liabilities, Minority Interests and Stockholders' Equity</b>		
Accounts payable	\$ 238.6	\$ 163.5
Accrued expenses	208.7	101.3
Income taxes payable	3.1	3.5
Accrued interest	7.9	1.4
Deferred income on sales to distributors	120.8	120.4
Deferred income taxes	1.0	—
Current portion of long-term debt	75.5	30.8
Total current liabilities	<u>655.6</u>	<u>420.9</u>
Long-term debt	1,149.6	1,128.6
Other long-term liabilities	63.8	46.8
Deferred income taxes	8.0	6.9
Total liabilities	<u>1,877.0</u>	<u>1,603.2</u>
Commitments and contingencies (See Note 9)		
Minority interests in consolidated subsidiaries	16.7	18.5
Common stock (\$0.01 par value, 750,000,000 and 600,000,000 shares authorized, 441,839,276 and 338,031,721 shares issued, 396,335,519 and 292,615,751 shares outstanding), respectively	4.4	3.4
Additional paid-in capital	2,354.5	1,419.6
Accumulated other comprehensive income (loss)	6.0	(0.5)
Accumulated deficit	(1,030.6)	(1,051.4)
Less: treasury stock, at cost; 45,503,757 and 45,415,970 shares, respectively	<u>(355.7)</u>	<u>(355.2)</u>
Total stockholders' equity	<u>978.6</u>	<u>15.9</u>
Total liabilities, minority interests and stockholders' equity	<u>\$ 2,872.3</u>	<u>\$ 1,637.6</u>

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	
	March 28, 2008	March 30, 2007
Revenues	\$ 421.9	\$ 374.2
Cost of revenues	275.3	237.6
Gross profit	146.6	136.6
Operating expenses:		
Research and development	40.3	30.8
Selling and marketing	25.8	22.9
General and administrative	23.8	20.2
In-process research and development	17.7	—
Amortization of acquisition-related intangible assets	2.4	—
Restructuring, asset impairments and other, net	5.8	—
Total operating expenses	<u>115.8</u>	<u>73.9</u>
Operating income	<u>30.8</u>	<u>62.7</u>
Other income (expenses), net:		
Interest expense	(9.3)	(9.7)
Interest income	2.0	2.8
Other	(1.9)	(0.5)
Loss on debt prepayment	—	(0.1)
Other income (expenses), net	<u>(9.2)</u>	<u>(7.5)</u>
Income before income taxes and minority interests	21.6	55.2
Income tax provision	(1.1)	(0.6)
Minority interests	0.3	(0.6)
Net income	<u>\$ 20.8</u>	<u>\$ 54.0</u>
Comprehensive income:		
Net Income	\$ 20.8	\$ 54.0
Foreign currency translation adjustments	6.4	0.2
Effects of cash flow hedges	0.1	(0.8)
Comprehensive income	<u>\$ 27.3</u>	<u>\$ 53.4</u>
Net income per common share:		
Basic	<u>\$ 0.07</u>	<u>\$ 0.19</u>
Diluted	<u>\$ 0.07</u>	<u>\$ 0.18</u>
Weighted average common shares outstanding:		
Basic	<u>306.8</u>	<u>289.5</u>
Diluted	<u>309.3</u>	<u>300.6</u>

See accompanying notes to consolidated financial statements.

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

	Quarter Ended	
	March 28, 2008	March 30, 2007
Cash flows from operating activities:		
Net income	\$ 20.8	\$ 54.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27.9	22.1
Gain on sale and disposal of fixed assets	(2.3)	(2.5)
Proceeds from termination of interest rate swaps	—	1.4
Amortization of debt issuance costs	1.0	1.1
Provision for excess inventories	2.5	1.6
Non-cash impairment	2.2	—
Non-cash write-off of in-process research and development	17.7	—
Non-cash portion of loss on debt prepayment	—	0.1
Non-cash stock compensation expense	6.7	3.3
Deferred income taxes	(0.6)	(0.4)
Other	(0.3)	0.1
Changes in assets and liabilities, exclusive of impact of acquisitions:		
Receivables	13.2	3.8
Inventories	5.5	(2.2)
Other assets	8.1	(7.5)
Accounts payable	12.8	(12.9)
Accrued expenses	12.9	(7.3)
Income taxes payable	(0.5)	(0.7)
Accrued interest	6.5	3.9
Deferred income on sales to distributors	1.1	(1.4)
Other long-term liabilities	1.7	6.6
Net cash provided by operating activities	<u>136.9</u>	<u>63.1</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(15.5)	(49.0)
Deposits utilized (funds deposited) for purchases of property, plant and equipment	0.1	(1.4)
Proceeds from sales of property, plant and equipment	38.6	7.2
Cash received in the acquisition of a business, net of acquisition costs	161.6	—
Net cash provided by (used in) investing activities	<u>184.8</u>	<u>(43.2)</u>
Cash flows from financing activities:		
Proceeds from debt issuance	—	0.5
Proceeds from issuance of common stock under the employee stock purchase plan	—	1.1
Proceeds from exercise of stock options	0.6	19.2
Dividend to minority shareholder of consolidated subsidiary	(1.5)	(2.8)
Purchase of treasury stock	(0.5)	—
Payment of capital lease obligation	(7.4)	(3.4)
Payment of debt issuance and amendment costs	—	(0.4)
Repayment of long-term debt	(280.8)	(26.9)
Net cash used in financing activities	<u>(289.6)</u>	<u>(12.7)</u>
Effect of exchange rate changes on cash and cash equivalents	1.2	(0.2)
Net increase in cash and cash equivalents	33.3	7.0
Cash and cash equivalents, beginning of period	274.6	268.8
Cash and cash equivalents, end of period	<u>\$ 307.9</u>	<u>\$ 275.8</u>
<b>Supplementary disclosure of non-cash investing and financing activities</b>		
Common stock issued for purchase of business	\$ 928.6	\$ —

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, analog, digital signal processing, mixed-signal, advanced logic, data management semiconductors and standard component devices and is engaged in designing, manufacturing and marketing integrated circuits worldwide. 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.

On March 17, 2008, the Company completed the purchase of AMIS Holdings, Inc., a Delaware corporation (“AMIS”), whereby AMIS became a wholly-owned subsidiary of the Company (see Note 3: “Acquisitions” for further discussion).

The accompanying unaudited financial statements as of March 28, 2008, and for the three months ended March 28, 2008 and March 30, 2007, 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, 2007 and for the year then ended included in the Company’s annual report on Form 10-K for the year ended December 31, 2007.

**Note 2: 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 where we do not have the ability to exert significant influence are accounted for on the cost basis. All intercompany accounts and transactions have been eliminated.

***Use of Estimates***

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates have been used by management in conjunction with the measurement of valuation allowances relating to 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.

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

***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.

***Inventories***

Inventories not related to an acquisition 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.

Inventory obtained through the purchase of a business, such as the acquisition of AMIS are initially recorded at fair value less costs of disposal. The company used management estimates to determine the fair value of the inventory as of the acquisition date. The methodology involves stepping up the value of acquired finished goods and work-in-process from cost to expected sales value less variable costs to dispose. The total increases in inventory value related to recording it at fair value for the AMIS and ADI acquisitions were \$72.8 million and \$3.1 million dollars, respectively. As this inventory is shipped to customers, it will significantly decrease the gross margin reported on those future sales until the inventory is completely sold.

***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. 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

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

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. During the fourth quarter of 2007 we entered into an agreement to sell the wafer fabrication facility and associated land at our Phoenix site for approximately \$16 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 \$9 million. The sale is scheduled to be completed by the end of the third quarter of 2008. During the second quarter of 2007, the Company entered into an agreement to sell three parcels of land totaling approximately 22 acres for approximately \$9.5 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 \$8.2 million over the next three to four quarters. The remaining unused property and buildings are currently being marketed for sale. The remainder of the Phoenix site will continue as the Company's corporate headquarters as well as a manufacturing and design center and research and development facility.

**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), the Company's September 2006 acquisition of an additional interest in its investment in Leshan-Phoenix Semiconductor Company ("Leshan"), the Company's December 2007 acquisition of the voltage regulation and thermal monitoring products for its computing applications business ("PTC Business") from Analog Devices, Inc. and its subsidiaries ("ADI"), and the Company's March 2008 acquisition of AMIS (see Note 3: "Acquisitions" for further discussion). A reconciliation of the original cost of the goodwill from each of the above transactions to the carrying value as of March 28, 2008 is as follows, in millions:

	March 28, 2008				Carrying Value
	Original Cost	Accumulated Amortization	Purchase Price Adjustments	Foreign Currency Translation Adjustment	
<b>Goodwill resulting from:</b>					
Cherry acquisition	\$ 95.7	\$ (18.4)	\$ —	\$ —	\$ 77.3
Leshan additional interest	3.8	—	—	—	3.8
ADI PTC business acquisition	91.3	—	0.4	—	91.7
AMIS acquisition	559.2	—	(1.5)	(0.4)	557.3
	<u>\$ 750.0</u>	<u>\$ (18.4)</u>	<u>\$ (1.1)</u>	<u>\$ (0.4)</u>	<u>\$ 730.1</u>

Under SFAS No. 142, goodwill is evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting

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

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

**Intangible Assets**

Intangible assets consist of values assigned to intellectual property, assembled workforce, customer relationships, non-compete agreements and patents resulting from the May 2006 purchase of LSI Logic Corporation's ("LSI") Gresham, Oregon wafer fabrication facility, the December 2007 purchase of ADI's PTC Business and the March 2008 purchase of AMIS (see Note 3: "Acquisitions" for further discussion). These are stated at cost less accumulated amortization and are amortized over their economic useful life ranging from 3 to 15 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 March 28, 2008 and December 31, 2007 (in millions):

	March 28, 2008				Useful Life (in Years)
	Original Cost	Accumulated Amortization	Foreign Currency Translation Adjustment	Carrying Value	
Intellectual property	\$ 13.9	\$ (2.2)	\$ —	\$ 11.7	5-12
Assembled workforce	6.7	(2.5)	—	4.2	5
Customer relationships	222.7	(1.7)	1.1	222.1	5-15
Non-compete agreements	0.4	—	—	0.4	3
Patents	16.7	(0.4)	0.2	16.5	12
Developed technology	80.1	(0.1)	—	80.0	12
Trademarks	8.7	—	—	8.7	15
Total intangibles	<u>\$349.2</u>	<u>\$ (6.9)</u>	<u>\$ 1.3</u>	<u>\$ 343.6</u>	

	December 31, 2007				Useful Life (in Years)
	Original Cost	Accumulated Amortization	Carrying Value	Carrying Value	
Intellectual property	\$ 13.9	\$ (1.7)	\$ 12.2		5-12
Assembled workforce	6.7	(2.2)	4.5		5
Customer relationships	23.7	—	23.7		5
Non-compete agreements	0.4	—	0.4		3
Patents	16.7	—	16.7		12
Total intangibles	<u>\$ 61.4</u>	<u>\$ (3.9)</u>	<u>\$ 57.5</u>		

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

Amortization expense for intangible assets amounted to \$3.0 million and \$0.6 million for the quarters ended March 28, 2008 and March 30, 2007, respectively and is expected to be as follows over the next five years (in millions):

	<u>Intellectual Property</u>	<u>Assembled Workforce</u>	<u>Customer Relationships Assets</u>	<u>Non- compete Agreements</u>	<u>Patents</u>	<u>Developed Technology</u>	<u>Trademarks</u>	<u>Total</u>
Remainder of 2008	\$ 1.2	\$ 1.0	\$ 13.6	\$ 0.2	\$ 1.1	\$ 6.6	\$ 0.4	\$ 24.1
2009	1.7	1.3	18.1	0.1	1.4	6.7	0.6	29.9
2010	1.7	1.3	18.0	0.1	1.4	6.7	0.6	29.8
2011	1.2	0.6	18.0	—	1.4	6.7	0.6	28.5
2012	0.7	—	18.0	—	1.4	6.7	0.6	27.4
Thereafter	5.2	—	136.4	—	9.8	46.6	5.9	203.9
Total estimated amortization expense	<u>\$ 11.7</u>	<u>\$ 4.2</u>	<u>\$ 222.1</u>	<u>\$ 0.4</u>	<u>\$ 16.5</u>	<u>\$ 80.0</u>	<u>\$ 8.7</u>	<u>\$343.6</u>

#### **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 \$17.7 million and \$18.9 million at March 28, 2008 and December 31, 2007, respectively.

#### **Revenue Recognition**

The Company generates revenue from sales of its semiconductor products to original equipment manufacturers, electronic manufacturing service providers and distributors. The Company also generates revenue, although to a much lesser extent from manufacturing services provided to customers. The Company recognizes revenue on sales to original equipment manufacturers and electronic manufacturing service providers and sales of manufacturing services net of provisions for related sales returns and allowances when persuasive evidence of an arrangement exists, title and risk of loss pass to the customer (which is generally upon shipment), the price is fixed or determinable and collectability is reasonably assured. 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 its consolidated balance sheet. The Company recognizes the related revenue and cost of revenues when it is informed by the distributor that they have resold the products to the end user. As a result of the Company's inability to reliably estimate up front the effects of the returns and allowances with these distributors, the Company defers the related revenue and margin on sales to distributors. Although payment terms vary, most distributor agreements require payment within 30 days.

Taxes assessed by government 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. The Company's original equipment manufacturer customers do not have the right to return products other than pursuant to the provisions of the Company's standard warranty. Sales to distributors, however, are typically made pursuant to agreements

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

that provide return rights with respect to discontinued or slow-moving products. Under the Company's general agreements, distributors are allowed to return any product that has been removed from the price book. In addition, agreements with distributors typically contain standard stock rotation provisions permitting limited levels of product returns. However, since the Company defers recognition of revenue and gross profit on sales to distributors until the distributor resells the product, due to the inability to reliably estimate up front the effect of the returns and allowances with these distributors, sales returns and allowances have minimal impact on the results of operations. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. Given that revenues consist of a high volume of relatively similar products, actual returns and allowances and warranty claims have not traditionally fluctuated significantly from period to period, and returns and allowances and warranty provisions have historically been reasonably accurate.

The Company generally warrants that products sold to its customers will, at the time of shipment, be free from defects in workmanship and materials and conform to approved specifications. The Company's standard warranty extends for a period that is the greater of (i) three years from the date of shipment or (ii) the period of time specified in the customer's standard warranty (provided that the customer's standard warranty is stated in writing and extended to purchasers at no additional charge). At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with its sales, recorded as a component of cost of revenues. In addition, the Company also offers cash discounts to customers for payments received within an agreed upon time, generally 10 days after shipment. The Company accrues reserves for cash discounts as a reduction to accounts receivable and a reduction to revenues, based on experience with each customer.

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

***Research and Development Costs***

Research and development costs are expensed as incurred.

***Share-Based Payments***

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 March 28, 2008, the Company had no unvested awards with market conditions, although it did have outstanding awards with performance, time and service based vesting provisions.

***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

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

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 collectability 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.

The Company adopted the provision of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007 (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes in an enterprise’s financial statements in accordance with FASB Statement No. 109 “Accounting for Income Taxes.” The company or one of its subsidiaries 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 2002. Included in the Company’s liability for unrecognized tax benefits is \$9.1 million related to the tax positions for which it is reasonably possible that the total amounts could significantly change prior to December 31, 2008, as a result of expiring statutes of limitations.

***Foreign Currencies***

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

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

***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 actuarial analysis, considering all known trends and uncertainties.

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

***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 March 28, 2008 was 5.6%. 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.

***Fair Value Measurement***

In September 2006, the FASB SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and expands on required disclosures about fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is applied prospectively. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, “Effective Date of FASB Statement No. 157” (FSP 157-2), which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP 157-2 is effective upon issuance. Therefore, as of January 1, 2008, the Company adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. SFAS No. 157 defines fair value under generally accepted accounting principles. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of SFAS No. 157, except as it applies to those non-financial assets and non-financial liabilities as described in FSP 157-2, had no material impact to the Company’s consolidated balance sheet and statement of operations.

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

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 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected to be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and will be applied prospectively, although earlier adoption is permitted. As of January 1, 2008, the Company adopted SFAS No. 159 and the adoption had no material impact on the Company’s consolidated financial statements.

**Note 3: Acquisition**

***Acquisition of AMIS Holdings, Inc.***

On March 17, 2008, the Company completed the purchase of AMIS, whereby AMIS became a wholly-owned subsidiary of the Company. At the effective time of the merger, each issued and outstanding share of common stock of AMIS was converted into 1.15 shares of the Company’s common stock, which had an approximate value of \$897.4 million, based on the price of the Company’s common stock when the merger was announced on December 13, 2007. In accordance with Emerging Issues Task Force issue No. 98-3 “Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business,” this transaction was determined to be a business combination, not an acquisition of assets.

AMIS is primarily engaged in designing, manufacturing and marketing integrated circuits worldwide. AMIS’s results of operations have been included in the consolidated financial statements since the date of the acquisition. The Company believes the combination will enhance shareholder value by (1) accelerating its transformation from a discrete supplier to a key supplier with scale, (2) strengthening its end-market presence, facilitating its entry into new markets and deepening customer relationships, (3) obtaining significant scale and cash flow generation, and (4) achieving cost savings by leveraging its operational expertise and accelerating the ramp of activity in its Gresham, Oregon wafer fabrication facility.

The aggregate purchase price of approximately \$939.7 million includes the issuance of approximately 103.2 million shares of common stock valued at approximately \$897.4 million and estimated direct transaction costs of approximately \$11.1 million. The value of the approximately 103.2 million common shares that were issued to AMIS shareholders was determined based on approximately 89.7 million shares of AMIS common stock outstanding on March 17, 2008 and the exchange ratio of 1.15 shares of the Company’s common stock for each AMIS share, at a value of \$8.70 per share, the average closing price of the Company’s shares of common stock for the two days prior to, and two days subsequent to the public announcement of the merger on December 13, 2007. AMIS stock options, restricted stock and warrants were exchanged for stock options, restricted stock and warrants of the Company and the exercise price per share was adjusted for the 1.15 exchange ratio. Vested stock options, restricted stock and warrants issued by the Company in exchange for options and restricted stock held by employees and directors of AMIS and warrants held by non-employees of AMIS are considered part of the purchase price. Accordingly, the purchase price includes an estimated fair value of stock options and restricted stock and warrants of approximately \$38.5 million. The purchase price excludes the estimated fair value of unvested stock options and restricted stock, of approximately \$7.3 million, which will be amortized to compensation expense over the remaining vesting period of each award, subsequent to March 17, 2008.

The fair value of the Company’s options that were issued in exchange for AMIS options were estimated by using the Black-Scholes option pricing model with market assumptions. Option pricing models require the use of highly subjective market assumptions, including expected stock price volatility, which if changed can materially

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

affect fair value estimates. The more significant assumptions used in estimating the fair value include volatility of 49.9 percent, an expected life of 4.2 years based on the age of the original award, a dividend rate of zero and a risk-free interest rate of 3.15%.

The warrants that were issued by the Company in exchange for AMIS warrants are to purchase approximately 5.3 million shares of the Company's common stock at an exercise price of \$19.41 per share. The warrants expire on December 31, 2010 and are held by a subsidiary of Nippon Mining Holdings, Inc. Pursuant to the terms of the warrants, upon the completion of the merger the warrants were converted into warrants to purchase the number of shares of the Company's common stock that would have been deliverable to the holder had such warrants been exercised immediately prior to the merger, and continue to remain outstanding on terms substantially identical to those in effect immediately prior to the merger.

The following table presents the allocation of the purchase price of AMIS, including professional fees and other related acquisition costs, to the assets acquired based on their estimated fair values (in millions):

Cash and cash equivalents	\$ 172.7
Receivables, net	83.2
Inventory	149.9
Other current assets	27.8
Property, plant and equipment	111.9
Goodwill	559.2
Intangible assets	287.8
In-process research and development	17.7
Other assets	13.6
Total assets acquired	<u>1,423.8</u>
Amounts payable to banks and long-term debt due within one year	(316.0)
Other current liabilities	(153.9)
Long-term accrued liabilities	(14.2)
Total liabilities assumed	<u>(484.1)</u>
Net assets acquired	<u>\$ 939.7</u>

Of the \$305.5 million of acquired intangible assets, \$17.7 million was assigned to in-process research and development ("IPRD") assets that were written off at the date of the acquisition in accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*. The value assigned to IPRD was determined by considering the importance of products under development to the overall development plan, estimating costs to develop the purchased IPRD into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. The fair value of IPRD was determined using the income approach. The income approach recognizes that the current value of an asset or liability is premised on the expected receipt or payment of future economic benefits generated over its remaining life. A discount rate of 12% was used in the present value calculations, and was derived from a weighted-average cost of capital analysis, adjusted to reflect additional risks inherent in the acquired operations.

The remaining \$287.8 million of acquired intangible assets have a weighted-average useful life of approximately 14 years. The intangible assets that make up that amount include: trademarks of \$8.7 million (15-year weighted-average useful life), customer relationships of \$199.0 million (15-year weighted-average useful life), and developed technology of \$80.1 million (12-year weighted-average useful life).

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

Of the total purchase price paid of \$939.7 million, approximately \$559.2 million has been allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Among the factors that contributed to a purchase price in excess of the fair value of the net tangible and intangible assets was the acquisition of an assembled workforce of experienced semiconductor engineers. We expect these experienced engineers to provide the capability of developing and integrating advanced technology into its next generation products. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that management determines that the value of goodwill has become impaired, the Company will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made. The \$559.2 million of goodwill was assigned to the custom products and manufacturing services segment, none of which is expected to be deductible for tax purposes.

The \$316.0 million of amounts payable to banks and long-term debt due within one year includes \$276.7 million outstanding on AMIS's senior secured term loan which required repayment upon merger or acquisition. The entire amount outstanding on the senior secured term loan as of the acquisition date was repaid by the Company prior to March 28, 2008.

The initial allocation of the purchase price is based on management estimates and assumptions, and other information compiled by management, which utilized established valuation techniques appropriate for the high-technology industry, which were either the income approach, cost approach or market approach, depending upon which was the most appropriate based on the nature and reliability of the data available. The cost approach takes into account the cost to replace (or reproduce) the asset and the effect on the asset's value of physical, functional and/or economic obsolescence that has occurred with respect to the asset. The market approach is a technique used to estimate value from an analysis of actual transactions or offerings for economically comparable assets available as of the valuation date.

The allocation of the purchase price includes \$27.6 million of accrued liabilities for estimated costs to exit certain activities of AMIS, including \$13.2 million of employee separation costs and \$14.4 million of exit costs. The \$13.2 million of employee separation costs includes \$10.0 million to involuntarily terminate or relocate approximately 90 employees performing overlapping or duplicative functions throughout AMIS and also \$3.2 million to involuntarily terminate approximately 140 manufacturing employees as a result of the planned shutdown of one of the fabrication facilities at AMIS's Pocatello, Idaho facility. The shutdown is scheduled to be completed by the end of the first quarter of 2010. The \$14.4 million of exit costs includes \$10.3 million for lease termination costs at duplicative facilities, \$3.5 million of facility decommissioning costs resulting from the planned shutdown of the fabrication facility and also \$0.6 million of costs to reorganize the structure of AMIS's subsidiaries. As of March 28, 2008, management of the Company had not finalized all exit plans related to the AMIS acquisition and expects to finalize the plans within the first year after the acquisition date, which will result in adjustments to the allocation of the acquisition of the purchase price that may impact accrued liabilities and goodwill.

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

The following unaudited pro forma consolidated results of operations for the quarters ended March 28, 2008 and March 30, 2007 have been prepared as if the acquisition of AMIS had occurred at January 1, 2008 and January 1, 2007, respectively for each quarter (in millions, except per share data):

	Quarter Ended	
	March 28, 2008	March 30, 2007
Net revenues	\$ 530.5	\$ 524.6
Net income	\$ 30.0	\$ 75.4
Net income per common share—Basic	\$ 0.07	\$ 0.19
Net income per common share—Diluted	\$ 0.07	\$ 0.19

The unaudited pro forma consolidated results of operations does not purport to be indicative of the results obtained if the above acquisition had actually occurred as of the dates indicated, or of those results that may be obtained in the future. The unaudited pro forma consolidated results of operations include adjustments to net income to give effect to: depreciation of property, plant and equipment acquired; amortization of intangible assets acquired; reduced interest expense as a result of the required repayment of AMIS's senior secured term loan upon acquisition; and stock compensation expense for stock options and restricted stock units of AMIS that were exchanged for stock options and restricted stock units of the Company. This unaudited pro forma consolidated results of operations was derived, in part, from the historical consolidated financial statements of AMIS and other available information and assumptions believed to be reasonable under the circumstances.

**Note 4: Restructuring, Asset Impairment and Other, Net**

The activity related to the Company's restructuring, asset impairments and other, net for programs that were either initiated in 2008 or had not been completed as of December 31, 2007, are as follows (in millions):

**Restructuring**

*Restructuring Activities Related to the 2008 Acquisition of AMIS*

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Quarter ended March 28, 2008	\$ —	\$ 1.7	\$—	\$ —	\$ 1.7
Exit costs:					
Quarter ended March 28, 2008	\$ —	\$ 1.8	\$—	\$ —	\$ 1.8

In March 2008, the Company acquired AMIS and announced plans to integrate the operations of the two companies for cost savings purposes (See Note 3: "Acquisitions" for further discussion). As part of these plans, certain duplicative positions were eliminated and certain overlapping or duplicative contracts with external suppliers were renegotiated with terms applicable to the combined company. During March 2008, the Company recorded employee separation charges of \$1.7 million and exit costs of \$1.8 million related to the acquisition of AMIS. These charges have been included in restructuring, asset impairment and other, net on the consolidated statement of operations for the quarter ended March 28, 2008.

The employee separation charges of \$1.7 million include \$0.3 million for severance benefits of 19 individuals who were employees of the Company prior to the acquisition and \$1.4 million for severance benefits

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

of 24 individuals who were employees of AMIS prior to the acquisition. All such employees were or are required to render services until their termination date to receive these severance benefits. The termination benefits for the 24 AMIS employees are being recognized ratably from the acquisition date to their termination date. The Company expects to record an additional \$3.8 million of separation charges through the end of the fourth quarter of 2008. All terminations and associated severance payments related to these activities are expected to be completed by the end of the fourth quarter of 2008.

The exit costs of \$1.8 million were for charges incurred to terminate overlapping or duplicative software licenses under certain lease agreements with external suppliers in connection with the AMIS acquisition. All payments related to these exit costs are expected to be completed by the end of the second quarter of 2009.

*2007 Plan to Restructure Certain General and Administrative Positions in Asia*

	<u>Balance at Beginning of Period</u>	<u>Charges</u>	<u>Usage</u>	<u>Adjustments</u>	<u>Balance at End of Period</u>
Cash employee separation charges:					
Quarter ended March 28, 2008	\$ 0.5	\$ —	\$(0.4)	\$ —	\$ 0.1

Cumulative charges of \$1.0 million have been recognized through March 28, 2008, related to the 2007 plan to restructure certain general and administrative positions in Asia, all of which were recognized in periods prior to the quarter ended March 28, 2008. In October 2007, the Company announced plans to change its management structure at its Aizu, Japan manufacturing facility and to outsource its healthcare professional services provided at its Seremban, Malaysia manufacturing facility. This activity was completed by the end of the first quarter of 2008. Approximately 21 employees were terminated as a direct result of this plan. These measures were initiated for cost savings purposes. Employees impacted by these announcements began to exit during the fourth quarter of 2007. As of March 28, 2008, \$0.1 million remained to be paid. All termination benefits and associated severance payments related to this charge are expected to be paid by the end of the second quarter of 2008.

*2007 Plan to Restructure Phoenix, Arizona Wafer Manufacturing*

	<u>Balance at Beginning of Period</u>	<u>Charges</u>	<u>Usage</u>	<u>Adjustments</u>	<u>Balance at End of Period</u>
Cash employee separation charges:					
Quarter ended March 28, 2008	\$ —	\$ 0.8	\$(0.3)	\$ —	\$ 0.5

Cumulative charges of \$2.8 million have been recognized through March 28, 2008, related to the 2007 plan to restructure Phoenix, Arizona wafer manufacturing, of which \$0.8 million has been included in restructuring, asset impairment and other, net on the consolidated statement of operations for the quarter ended March 28, 2008. 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 lower-cost manufacturing facilities, expected to be completed by the end of the third quarter of 2008. It is anticipated that a total of approximately 85 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 67 positions. These measures were initiated for cost savings purposes. Employees impacted by these announcements began to exit

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

during the third quarter of 2007 and continued to exit through the first quarter of 2008. The Company expects to record an additional \$0.1 million through the end of the second quarter of 2008. All terminations and associated severance payments related to these activities are expected to be completed by the end of the second quarter of 2008.

**Asset Impairments**

In March 2008, the Company recorded \$2.2 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. Prior to March 2008, the Company had capitalized approximately \$5.9 million of software development costs associated with modifications and enhancements to several business process and related systems. The \$2.2 million of asset impairments resulted from the fact that the Company currently has no plans to use certain internally developed software, and management considers the cease of use of these assets as other than temporarily idled. The decision to cease development of these assets in the first quarter of 2008 was triggered by the acquisition of AMIS, which required a reallocation of corporate resources from these projects to projects associated with the integration of AMIS into the Company's computer systems (See Note 3: "Acquisitions" for further discussion). The amount of the asset impairment charge taken in March 2008, of \$2.2 million, was determined based on the costs that had previously been capitalized related to the projects that have been abandoned.

**Other**

As mentioned previously in the restructuring activities related to the recent acquisition of AMIS during the quarter ended March 28, 2008, the Company terminated certain overlapping or duplicative lease agreements with external suppliers for software licenses. These agreements had previously been recorded by the Company as capital lease obligations on the consolidated balance sheet. Included in restructuring, asset impairments and other, net on the statement of operations for the quarter ended March 28, 2008 is a gain of \$0.7 million for the reversal of the capital lease obligation, partially offset by the write-off of the net book value of the software licenses that were included in property, plant and equipment.

A reconciliation of the activity in the tables above to the "Restructuring, asset impairments and other, net" caption on the statement of operations for the quarter ended March 28, 2008, is as follows (in millions):

	<u>Quarter Ended March 28, 2008</u>
<b>Restructuring</b>	
2008 Charges:	
Cash employee separation charges	\$ 2.5
Exit costs	1.8
<b>Asset impairments</b>	
2008 Charges	2.2
<b>Other</b>	
2008 gain on disposal of property, plant and equipment	(0.7)
	<u>\$ 5.8</u>

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

**Note 5: Balance Sheet Information**

Balance sheet information is as follows (in millions):

	March 28, 2008	December 31, 2007
Receivables, net:		
Accounts receivable	\$ 253.0	\$ 178.7
Less: Allowance for doubtful accounts	(7.3)	(3.5)
	<u>\$ 245.7</u>	<u>\$ 175.2</u>
Inventories, net:		
Raw materials	\$ 32.4	\$ 25.1
Work in process	188.2	110.2
Finished goods	141.8	85.2
	<u>\$ 362.4</u>	<u>\$ 220.5</u>
Property, plant and equipment, net:		
Land	\$ 33.4	\$ 28.3
Buildings	444.4	376.5
Machinery and equipment	1,295.8	1,216.2
Total property, plant and equipment	1,773.6	1,621.0
Less: Accumulated depreciation	(1,039.4)	(1,006.1)
	<u>\$ 734.2</u>	<u>\$ 614.9</u>
Accrued expenses:		
Accrued payroll	\$ 71.6	\$ 37.5
Sales related reserves	56.7	39.9
Restructuring reserves	4.1	0.5
Accrued pension liability	0.1	0.2
Other	76.2	23.2
	<u>\$ 208.7</u>	<u>\$ 101.3</u>
Accumulated other comprehensive income:		
Foreign currency translation adjustments	\$ 6.5	\$ 0.1
Amortization of prior service cost of defined benefit pension plan	(0.5)	(0.5)
Prior service cost from legal plan amendment	(0.3)	(0.3)
Net unrealized gains and adjustments related to cash flow hedges	0.3	0.2
	<u>\$ 6.0</u>	<u>\$ (0.5)</u>

The activity related to the Company's warranty reserves for the quarter ended March 28, 2008 is as follows (in millions):

Balance as of December 31, 2007	\$ 2.2
Provision	—
Reserves acquired from AMIS	0.8
Usage	(0.3)
Reserved released	—
Balance as of March 28, 2008	<u>\$ 2.7</u>

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

The activity related to the Company's warranty reserves for the quarter ended March 30, 2007 is as follows (in millions):

Balance as of December 31, 2006	\$ 2.4
Provision	0.6
Usage	(0.1)
Reserved released	—
Balance as of March 30, 2007	<u>\$ 2.9</u>

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 March 28, 2008 and December 31, 2007, the total accrued pension liability was \$6.8 million and \$13.4 million, respectively, of which the current portion of \$0.1 million and \$0.2 million, respectively, were classified as accrued expenses. Included within accumulated other comprehensive income at March 28, 2008 was \$0.3 million related to unrecognized prior service cost for these plans. The components of the Company's net periodic pension expense for the quarters ended March 28, 2008 and March 30, 2007 are as follows (in millions):

	Quarter Ended	
	March 28, 2008	March 30, 2007
Service cost	\$ 0.4	\$ 0.3
Interest cost	0.3	0.3
Expected return on plan assets	(0.2)	(0.2)
Amortization of prior service cost	0.1	0.1
Total net periodic pension cost	<u>\$ 0.6</u>	<u>\$ 0.5</u>

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

**Note 6: Long-Term Debt**

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

	March 28, 2008	December 31, 2007
<b>Senior Bank Facilities:</b>		
Term Loan, interest payable quarterly at 4.4463% and 6.5800%, respectively	\$ 173.7	\$ 173.7
Revolver	—	—
	<u>173.7</u>	<u>173.7</u>
Zero Coupon Convertible Senior Subordinated Notes due 2024 <sup>(1)</sup>	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025 <sup>(1)</sup>	95.0	95.0
2.625% Convertible Senior Subordinated Notes due 2026 <sup>(1)</sup>	484.0	484.0
2.25% Note payable to Japanese bank due 2008 through 2010, interest payable semi-annually	9.0	9.6
Loan with Philippines Bank due 2008 through 2012, interest payable quarterly at 5.3768% and 6.2475%, respectively	24.2	25.0
Loan with Chinese bank due 2009, interest payable quarterly at 3.7987% and 6.1100%, respectively	14.0	14.0
Loan with Chinese bank due 2009, interest payable quarterly at 3.7987% and 6.1100%, respectively	6.0	6.0
Loan with Chinese bank due 2008 through 2013, interest payable semi-annually at 6.0488%	7.9	8.2
Loan with Chinese bank due 2008 through 2009, interest payable semi-annually at 6.3375%	14.6	15.7
Loan with Chinese bank due 2009, interest payable semi-annually at 3.8338% and 6.3413%, respectively	5.0	5.0
Short-term bridge loan due 2008, interest payable weekly at 4.75%	39.3	—
5.0% Note payable to Oregon State due 2009	0.5	0.5
Capital lease obligations	91.9	62.7
	<u>1,225.1</u>	<u>1,159.4</u>
Less: Current maturities	(75.5)	(30.8)
	<u>\$1,149.6</u>	<u>\$ 1,128.6</u>

(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.

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

Annual maturities relating to the Company's long-term debt as of March 28, 2008 are as follows (in millions):

		Actual Maturities
Remainder of	2008	\$ 66.1
	2009	68.2
	2010	288.0
	2011	25.1
	2012	126.3
	Thereafter	651.4
	Total	<u>\$ 1,225.1</u>

**March 2008 Short-Term Bridge Loan**

As part of the AMIS acquisition in March 2008, the Company assumed the obligations under a short-term bridge loan entered into by one of the Company's European subsidiaries. The bridge loan is with a Belgian bank for 25.0 million Euros due May 31, 2008 with the proceeds to be used to finance capital expenditures and other general corporate purposes. The loan bears interest at an annual rate of the one week Euribor plus 0.50%, with interest payable weekly.

**Capital Lease Obligations**

The Company has various capital lease obligations primarily for machinery and equipment assets. In March 2008, the Company sold assets with a net book value of \$26.2 million for \$33.7 million to a leasing agency under a sale-leaseback arrangement. We deferred a gain on the transaction in the amount of \$7.5 million. Concurrently, we purchased the assets under a capital lease agreement with a net present value of minimum lease payments of \$29.3 million, which will be depreciated over the lease term of five years.

**April 2008 Japan Loan**

In April 2008, the Company's Japanese subsidiary entered into a one-year loan agreement with a Japanese bank to finance capital expenditures and other general corporate purposes. The loan amount of 500 million yen, approximately \$5.0 million USD at March 28, 2008, bears interest at an annual rate of 1.875%, with interest payable quarterly.

**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.

**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, with the exception of domestic subsidiaries acquired from AMIS, (collectively, the "Guarantor Subsidiaries") fully and unconditionally guarantee on a joint and several basis the Company's obligations under the Notes. The Guarantor Subsidiaries

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

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):

	<u>Issuer</u> <u>ON Semiconductor</u> <u>Corporation <sup>(1)</sup></u>	<u>Guarantor</u>		<u>Non-</u> <u>Guarantor</u> <u>Subsidiaries</u>	<u>Eliminations</u>	<u>Total</u>
		<u>SCI LLC</u>	<u>Other</u> <u>Subsidiaries</u>			
<b>As of March 28, 2008</b>						
Cash and cash equivalents	\$ —	\$ 182.7	\$ —	\$ 125.2	\$ —	\$ 307.9
Receivables, net	—	29.1	—	216.6	—	245.7
Inventories, net	—	29.0	—	334.1	(0.7)	362.4
Other current assets	—	8.6	—	81.1	—	89.7
Deferred income taxes	—	—	—	—	—	—
Total current assets	—	249.4	—	757.0	(0.7)	1,005.7
Property, plant and equipment, net	—	157.6	3.7	572.9	—	734.2
Goodwill and other intangible assets	—	48.7	73.0	952.0	—	1,073.7
Investments and other assets	1,613.9	1,553.1	39.0	2,404.0	(5,551.3)	58.7
Total assets	<u>\$ 1,613.9</u>	<u>\$2,008.8</u>	<u>\$ 115.7</u>	<u>\$ 4,686.9</u>	<u>\$ (5,552.0)</u>	<u>\$2,872.3</u>
Accounts payable	\$ —	\$ 34.8	\$ 0.2	\$ 203.6	\$ —	\$ 238.6
Accrued expenses and other current liabilities	4.2	72.6	1.3	215.4	1.7	295.2
Deferred Tax Liabilities	—	1.8	—	(0.8)	—	1.0
Deferred income on sales to distributors	—	29.4	—	91.4	—	120.8
Total current liabilities	4.2	138.6	1.5	509.6	1.7	655.6
Long-term debt	839.0	238.5	—	72.1	—	1,149.6
Other long-term liabilities	—	32.2	0.1	31.5	—	63.8
Deferred Income Taxes	—	(1.8)	—	9.8	—	8.0
Intercompany	(207.9)	(162.3)	(13.4)	178.1	205.5	—
Total liabilities	635.3	245.2	(11.8)	801.1	207.2	1,877.0
Minority interests in consolidated subsidiaries	—	—	—	—	16.7	16.7
Stockholders' equity (deficit)	978.6	1,763.6	127.5	3,884.8	(5,775.9)	978.6
Liabilities, minority interests and stockholders' equity (deficit)	<u>\$ 1,613.9</u>	<u>\$2,008.8</u>	<u>\$ 115.7</u>	<u>\$ 4,685.9</u>	<u>\$ (5,552.0)</u>	<u>\$2,872.3</u>

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

	<u>Issuers</u> <u>ON Semiconductor</u> <u>Corporation (1)</u>	<u>Guarantor</u>		<u>Non-</u> <u>Guarantor</u> <u>Subsidiaries</u>	<u>Eliminations</u>	<u>Total</u>
		<u>SCI LLC</u>	<u>Other</u> <u>Subsidiaries</u>			
<b>As of December 31, 2007</b>						
Cash and cash equivalents	\$ —	\$ 192.1	\$ —	\$ 82.5	\$ —	\$ 274.6
Receivables, net	—	26.4	—	148.8	—	175.2
Inventories, net	—	33.9	—	185.0	1.6	220.5
Other current assets	—	7.8	—	60.5	—	68.3
Deferred income taxes, current	—	(1.8)	—	8.5	—	6.7
Total current assets	—	258.4	—	485.3	1.6	745.3
Property, plant and equipment, net	—	157.3	3.7	453.9	—	614.9
Goodwill and other intangible assets	—	48.3	73.0	108.6	—	229.9
Investments and other assets	647.7	570.9	43.2	25.1	(1,239.4)	47.5
Total assets	<u>\$ 647.7</u>	<u>\$1,034.9</u>	<u>\$ 119.9</u>	<u>\$ 1,072.9</u>	<u>\$ (1,237.8)</u>	<u>\$1,637.6</u>
Accounts payable	\$ —	\$ 27.7	\$ 0.2	\$ 135.6	\$ —	\$ 163.5
Accrued expenses and other current liabilities	0.6	56.6	1.3	76.8	1.7	137.0
Deferred income on sales to distributors	—	30.1	—	90.3	—	120.4
Total current liabilities	0.6	114.4	1.5	302.7	1.7	420.9
Long-term debt	839.0	213.6	—	76.0	—	1,128.6
Other long-term liabilities	—	29.8	—	17.0	—	46.8
Deferred income taxes	—	(1.8)	—	8.7	—	6.9
Intercompany	(207.8)	(112.1)	(13.4)	127.8	205.5	—
Total liabilities	631.8	243.9	(11.9)	532.2	207.2	1,603.2
Minority interests in consolidated subsidiaries	—	—	—	—	18.5	18.5
Stockholders' equity (deficit)	15.9	791.0	131.8	540.7	(1,463.5)	15.9
Liabilities, minority interests and stockholders' equity (deficit)	<u>\$ 647.7</u>	<u>\$1,034.9</u>	<u>\$ 119.9</u>	<u>\$ 1,072.9</u>	<u>\$ (1,237.8)</u>	<u>\$1,637.6</u>

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

	<u>Issuer</u> <u>ON Semiconductor</u> <u>Corporation (1)</u>	<u>Guarantor</u>		<u>Non-</u> <u>Guarantor</u> <u>Subsidiaries</u>	<u>Eliminations</u>	<u>Total</u>
		<u>SCI LLC</u>	<u>Other</u> <u>Subsidiaries</u>			
<b>For the year quarter ended March 28, 2008</b>						
Revenues	\$ —	\$ 116.9	\$ 3.6	\$ 548.1	\$ (246.7)	\$ 421.9
Cost of revenues	—	105.4	0.4	412.4	(242.9)	275.3
Gross profit	—	11.5	3.2	135.7	(3.8)	146.6
Research and development	—	6.7	2.7	32.0	(1.1)	40.3
Selling and marketing	—	11.9	0.4	13.8	(0.3)	25.8
General and administrative	—	(2.2)	0.2	25.9	(0.1)	23.8
Restructuring, asset impairments and other, net	—	4.6	—	21.3	—	25.9
Total operating expenses	—	21.0	3.3	93.0	(1.5)	115.8
Operating income (loss)	—	(9.5)	(0.1)	42.7	(2.3)	30.8
Interest expense, net	(4.6)	(0.6)	—	(2.1)	—	(7.3)
Other	—	2.1	—	(4.0)	—	(1.9)
Equity in earnings	25.4	35.0	(0.8)	—	(59.6)	—
Income (loss) before income taxes, and minority interests	20.8	27.0	(0.9)	36.6	(61.9)	21.6
Income tax provision	—	0.2	—	(1.3)	—	(1.1)
Minority interests	—	—	—	—	0.3	0.3
Net income (loss)	<u>\$ 20.8</u>	<u>\$ 27.2</u>	<u>\$ (0.9)</u>	<u>\$ 35.3</u>	<u>\$ (61.6)</u>	<u>\$ 20.8</u>
Net cash provided by operating activities	<u>\$ —</u>	<u>\$ 54.4</u>	<u>\$ 0.1</u>	<u>\$ 85.1</u>	<u>\$ —</u>	<u>\$ 139.6</u>
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(8.6)	(0.1)	(6.8)	—	(15.5)
Deposits utilized for purchases of property, plant and equipment	—	—	—	0.1	—	0.1
Cash received in the acquisition of a business, net of acquisition costs	—	(11.1)	—	172.7	—	161.6
Proceeds from sales of property, plant and equipment	—	38.6	—	—	—	38.6
Net cash provided by (used in) investing activities	<u>—</u>	<u>18.9</u>	<u>(0.1)</u>	<u>166.0</u>	<u>—</u>	<u>184.8</u>
Cash flows from financing activities:						
Intercompany loans	—	(310.3)	—	310.3	—	—
Intercompany loan repayments	—	231.6	—	(231.6)	—	—
Proceeds from exercise of stock options	—	0.6	—	—	—	0.6
Repurchase of Treasury Stock	—	(0.5)	—	—	—	(0.5)
Dividends to minority shareholder of consolidated subsidiary	—	3.3	—	(4.8)	—	(1.5)
Equity injections from parent	—	—	3.3	—	—	3.3
Subsidiary declared dividend	—	—	(3.3)	—	—	(3.3)
Payment of capital lease obligation	—	(7.4)	—	—	—	(7.4)
Repayment of long term debt	—	—	—	(280.8)	—	(280.8)
Net cash used in financing activities	<u>—</u>	<u>(82.7)</u>	<u>—</u>	<u>(206.9)</u>	<u>—</u>	<u>(289.6)</u>
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(1.5)	—	(1.5)
Net increase (decrease) in cash and cash equivalents	—	(9.4)	—	42.7	—	33.3
Cash and cash equivalents, beginning of period	—	192.1	—	82.5	—	274.6
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 182.7</u>	<u>\$ —</u>	<u>\$ 125.2</u>	<u>\$ —</u>	<u>\$ 307.9</u>

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

	Issuer	Guarantor		Non-	Eliminations	Total
	ON Semiconductor Corporation <sup>(1)</sup>	SCI LLC	Other Subsidiaries	Guarantor Subsidiaries		
<b>For the year quarter ended March 30, 2007</b>						
Revenues	\$ —	\$ 138.2	\$ 2.5	\$ 454.9	\$ (221.4)	\$374.2
Cost of revenues	—	116.4	0.5	344.1	(223.4)	237.6
Gross profit	—	21.8	2.0	110.8	2.0	136.6
Research and development	—	6.9	3.2	20.7	—	30.8
Selling and marketing	—	12.5	0.3	10.1	—	22.9
General and administrative	—	(2.4)	—	22.6	—	20.2
Total operating expenses	—	17.0	3.5	53.4	—	73.9
Operating income (loss)	—	4.8	(1.5)	57.4	2.0	62.7
Interest expense, net	(4.6)	1.5	(2.1)	(1.7)	—	(6.9)
Other	—	(0.9)	—	0.4	—	(0.5)
Gain (loss) on debt prepayment and early extinguishment of debt	—	(150.1)	150.0	—	—	(0.1)
Equity in earnings	58.6	200.0	0.6	—	(259.2)	—
Income (loss) before income taxes, and minority interests	54.0	55.3	147.0	56.1	(257.2)	55.2
Income tax provision	—	2.4	—	(3.0)	—	(0.6)
Minority interests	—	—	—	—	(0.6)	(0.6)
Net income (loss)	<u>\$ 54.0</u>	<u>\$ 57.7</u>	<u>\$ 147.0</u>	<u>\$ 53.1</u>	<u>\$ (257.8)</u>	<u>\$ 54.0</u>
Net cash provided by (used in) operating activities	<u>\$ —</u>	<u>\$ (208.3)</u>	<u>\$ 179.6</u>	<u>\$ 91.8</u>	<u>\$ —</u>	<u>\$ 63.1</u>
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(22.6)	—	(26.4)	—	(49.0)
Deposits utilized for purchases of property, plant and equipment	—	—	—	(1.4)	—	(1.4)
Proceeds from sales of property, plant and equipment	—	0.4	—	6.8	—	7.2
Net cash used in investing activities	<u>—</u>	<u>(22.2)</u>	<u>—</u>	<u>(21.0)</u>	<u>—</u>	<u>(43.2)</u>
Cash flows from financing activities:						
Intercompany loans	—	(158.6)	—	158.6	—	—
Intercompany loan repayments	—	409.8	(179.6)	(230.2)	—	0.0
Proceeds from debt issuance	—	0.5	—	—	—	0.5
Proceeds from issuance of common stock under the employee stock purchase plan	—	1.1	—	—	—	1.1
Proceeds from exercise of stock options	—	19.2	—	—	—	19.2
Dividends to minority shareholder of consolidated subsidiary	—	5.3	—	(8.1)	—	(2.8)
Equity injections from parent	—	—	5.3	—	—	5.3
Subsidiary declared dividend	—	—	(5.3)	—	—	(5.3)
Payment of capital lease obligation	—	(3.2)	—	(0.2)	—	(3.4)
Payment of debt issuance costs	—	(0.4)	—	—	—	(0.4)
Repayment of long term debt	—	(23.9)	—	(3.0)	—	(26.9)
Net cash provided by (used in) financing activities	<u>—</u>	<u>249.8</u>	<u>(179.6)</u>	<u>(82.9)</u>	<u>—</u>	<u>(12.7)</u>
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(0.2)	—	(0.2)
Net increase (decrease) in cash and cash equivalents	—	19.3	—	(12.3)	—	7.0
Cash and cash equivalents, beginning of period	—	186.7	—	82.1	—	268.8
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 206.0</u>	<u>\$ —</u>	<u>\$ 69.8</u>	<u>\$ —</u>	<u>\$275.8</u>

(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 cash receipts and disbursements on its behalf.

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

**Note 7: Common Stock and Treasury Stock**

Income per share calculations for the quarters ended March 28, 2008 and March 30, 2007, are as follows (in millions, except per share data):

	Quarter Ended	
	March 28, 2008	March 30, 2007
Net income	\$ 20.8	\$ 54.0
Diluted net income applicable to common stock	\$ 20.8	\$ 54.0
Basic weighted average common shares outstanding	306.8	289.5
Add: Incremental shares for :		
Dilutive effect of equity based compensation	2.5	8.2
1.875% convertible senior subordinated notes	—	2.9
Diluted weighted average common shares outstanding	<u>309.3</u>	<u>300.6</u>
Income per common share		
Basic:	<u>\$ 0.07</u>	<u>\$ 0.19</u>
Diluted:	<u>\$ 0.07</u>	<u>\$ 0.18</u>

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 18.5 million and 7.0 million, for the quarters ended March 28, 2008 and March 30, 2007, respectively.

Additionally, warrants held by non-employees to purchase 5.3 million shares of the Company's common stock, which were obtained from the AMIS acquisition, were outstanding as of March 28, 2008, but were not included in the computation of diluted net income per share as the effect would have been anti-dilutive under the treasury stock method.

For the quarters ended March 28, 2008 and March 30, 2007, the assumed conversion of the zero coupon convertible senior subordinated notes due 2024 was also excluded in determining diluted earnings per share as the impact would have been anti-dilutive. The zero coupon convertible senior subordinated notes are convertible into cash up to the par value of \$260.0 million, based on a conversion price of \$9.82 per share. The excess of fair value over par value is convertible into stock. As of March 28, 2008 and March 30, 2007, respectively, the Company's common stock traded below \$9.82 per share; thus, the effects of an assumed conversion would have been anti-dilutive and therefore were excluded.

For the quarter ended March 28, 2008, the assumed conversion of the 1.875% convertible senior subordinated notes due 2025 was also excluded in determining diluted earnings per share as the impact would have been anti-dilutive. These notes are convertible into cash up to the par value of \$95.0 million, based on a

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

conversion price of \$7.00 per share. The excess of fair value over par value is convertible into stock. As of March 28, 2008, the Company's common stock traded below \$7.00 per share; thus, the effects of an assumed conversion would have been anti-dilutive and therefore were excluded.

For the quarters ended March 28, 2008 and March 30, 2007, the assumed conversion of the 2.625% convertible senior subordinated notes was also excluded in determining diluted earnings per share. The 2.625% convertible senior subordinated notes are convertible into cash up to the par value of \$484.0 million, based on an initial conversion price of approximately \$10.50 per share. The excess of fair value over par value is convertible into stock. As of March 28, 2008 and March 30, 2007, respectively, the Company's common stock traded below \$10.50 per share; thus, the effects of an assumed conversion would have been anti-dilutive and therefore were excluded.

Treasury Stock is recorded at cost and is presented as a reduction of stockholders' equity in the accompanying consolidated financial statements. None of these shares had been reissued or retired as of March 28, 2008, but may be reissued by the Company at a later date.

**Note 8: Employee Stock Benefit Plans**

There was an aggregate of 28.5 million and 21.0 million shares of common stock available for grant under the Company's stock option plans at March 28, 2008 and December 31, 2007, respectively. During the quarter ending March 31, 2008, 5.0 million shares were added to the shares available for issuance under the Company's stock plans pursuant to the acquisition of AMIS.

*Stock Options*

The fair value of each option grant is estimated on the date of grant using a lattice-based option valuation model. The volatility input is developed using implied volatility. The expected term of options represents the period of time that the options are expected to be outstanding. The expected term disclosed below is computed using the lattice model's estimated fair value as an input to the Black-Scholes formula and solving for expected term. The risk-free rate is based on zero-coupon U.S. Treasury yields in effect at the date of grant with the same period as the expected term. The weighted-average estimated fair value of stock options granted during the quarters ended March 28, 2008 and March 30, 2007 was \$3.06 and \$3.59 per share, respectively. The weighted-average assumptions associated with the stock options granted during the period are as follows:

	Quarter Ended March 28, 2008	Quarter Ended March 30, 2007
Volatility	56.2%	41.2%
Risk-free interest rate	2.8%	4.5%
Expected term	5.2 years	4.2 years

Pre-vesting forfeitures were estimated to be approximately 13% for the quarters ended March 28, 2008 and March 30, 2007, based on historical experience.

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

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

	Quarter Ended March 28, 2008			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (In-The-Money)
Outstanding at December 31, 2007	21.5	\$ 7.08		
Granted	5.7	5.94		
Acquired in AMIS transaction	9.4	9.14		
Exercised	(0.2)	2.69		
Cancelled	(1.0)	8.45		
Outstanding at March 28, 2008	<u>35.4</u>	<u>\$ 7.61</u>	<u>6.7</u>	<u>\$ 13.6</u>
Exercisable at March 28, 2008	<u>18.2</u>	<u>\$ 7.89</u>	<u>5.0</u>	<u>\$ 12.2</u>

Additional information about stock options outstanding at March 28, 2008 with exercise prices less than or above \$5.53 per share, the closing price at March 28, 2008, follows (number of shares in millions):

Exercise Prices	Exercisable		Unexercisable		Total	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Less than \$5.53	5.4	\$ 3.25	1.5	\$ 4.59	6.9	\$ 3.55
Above \$5.53	12.8	\$ 9.82	15.7	\$ 7.58	28.5	\$ 8.58
Total outstanding	<u>18.2</u>	<u>\$ 7.89</u>	<u>17.2</u>	<u>\$ 7.31</u>	<u>35.4</u>	<u>\$ 7.61</u>

*Restricted Stock Units and Awards*

Restricted stock units that vest over two to four years with service-based requirements as well as restricted stock units that vest based on performance-based requirements are payable in shares of the Company's stock upon vesting. The following table presents a summary of the status of the Company's restricted stock units granted to certain officers, directors, and employees of the Company as of March 28, 2008, and changes during the quarter ended March 28, 2008, follows (number of shares in millions):

	Quarter Ended March 28, 2008	
	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested shares of restricted stock units at December 31, 2007	1.5	\$ 10.55
Granted	0.8	7.17
Acquired in AMIS transaction	1.1	5.22
Released	(0.3)	7.21
Forfeited	—	6.36
Nonvested shares of restricted stock units at March 28, 2008	<u>3.1</u>	<u>\$ 8.23</u>

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

During the quarter ending March 28, 2008, the Company granted \$0.1 million in restricted stock awards to members of the Board of Directors. The awards vested and were issued immediately upon the effective date of the grant.

*Employee Stock Purchase Plans*

As of March 28, 2008, there were 2.2 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 ended March 28, 2008 and March 30, 2007 was \$2.31 per share and \$1.75 per share, respectively. The weighted-average assumptions used in the pricing model are as follows:

<u>Employee Stock Purchase Plan</u>	<u>Quarter Ended</u>	
	<u>March 28, 2008</u>	<u>March 30, 2007</u>
Expected life (in years)	0.25	0.25
Risk-free interest rate	3.3%	4.9%
Volatility	55.0%	39.0%

*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 quarters ended March 28, 2008 and March 30, 2007 was comprised as follows (in millions, except per share data):

	<u>Quarter Ended</u>	
	<u>March 28, 2008</u>	<u>March 30, 2007</u>
Cost of revenues	\$ 1.4	\$ 1.0
Research and development	0.9	0.6
Selling and marketing	0.9	0.5
General and administrative	3.5	1.2
Share-based compensation expense before income taxes	6.7	3.3
Related income tax benefits <sup>(1)</sup>	—	—
Share-based compensation expense, net of taxes	<u>\$ 6.7</u>	<u>\$ 3.3</u>

(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 March 28, 2008, 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 \$35.4 million and \$16.6 million, respectively. The total intrinsic value of stock options exercised during the quarter ended March 28, 2008 was \$0.5 million. The Company recorded cash received from the exercise of stock options of \$0.6 million and no related tax benefits during the quarter ended March 28, 2008.

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

**Note 9: Commitments and Contingencies****Leases**

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of March 28, 2008 (in millions):

Remainder of 2008 <sup>(1)</sup>	\$ 15.4
2009	17.7
2010	14.0
2011	10.6
2012	8.5
Thereafter	17.8
Total	<u>\$ 84.0</u>

(1) Minimum payments have not been reduced by minimum sublease rentals of \$0.3 million due in the future under subleases. Minimum payments include the interest portion of payments for capital lease obligations.

**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.

As a result of the acquisition of AMIS, the Company is a "primary responsible party" to an environmental remediation and cleanup at AMIS's former corporate headquarters in Santa Clara, California. Costs incurred by AMIS include implementation of the clean-up plan, operations and maintenance of remediation systems, and other project management costs. However, AMIS's former parent company, a subsidiary of Nippon Mining

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

contractually agreed to indemnify AMIS and the Company for any obligation relating to environmental remediation and cleanup at this location. In accordance with Statement of Position (SOP) No. 96-1, "Environmental Remediation Liabilities," the Company has not offset the receivable from Nippon Mining's subsidiary against the estimated liability on the consolidated balance sheets. Therefore, a receivable from Nippon Mining's subsidiary is recorded on the accompanying consolidated balance sheets as of March 28, 2008 related to this matter. The Company does not believe that the liability and receivable amounts are material to the Company's consolidated financial position, results of operations or cash flow.

***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. Depending on the significance of any particular customer and other relevant factors, the Company may agree to provide more favorable indemnity rights to such customers for valid warranty claims.

In connection with the acquisition of the LSI's Gresham, Oregon wafer fabrication facility, and ADI's PTC Business, we entered into various agreements with LSI and ADI, respectively. Pursuant to certain of these agreements, we agreed to indemnify LSI and ADI, respectively, for certain things limited in 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.

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

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 currently is involved in a variety of legal matters that arise in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters, including the matters described 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, consolidated 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 the Company's common stock in the aftermarket as conditions of receiving shares in the Company's initial public offering. The amended complaint further alleges that these supposed practices of the underwriters should have been disclosed in the Company's initial public offering prospectus and registration statement. The amended complaint alleges violations of both the registration and antifraud provisions of the federal securities laws and seeks unspecified damages. The Company understands that various other plaintiffs have filed substantially similar class action cases against approximately 300 other publicly-traded companies and their public offering underwriters in New York City, which have all been transferred, along with the case against the Company, to a single federal district court judge for purposes of coordinated case management. The Company believes that the claims against it 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

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

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 the Company's 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.

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 the Company. 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.

On October 1, 2007, the plaintiffs submitted their briefing in support of their motions to certify different classes in the six focus cases. The issuer defendants and the underwriter defendants filed separate oppositions to those motions on December 21, 2007. The motions to certify classes in the six focus cases are not yet fully briefed and remain pending. In addition, on August 14, 2007, the plaintiffs filed amended complaints in the six focus cases. The issuer defendants and the underwriter defendants separately moved to dismiss the claims against them in the amended complaints in the six focus cases. On March 26, 2008, the District Court issued an order in which it denied in substantial part the motions to dismiss the amended complaints in the six focus cases.

The Company intends to continue to defend the litigation vigorously. While the Company can make no assurances 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 flow.

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

**Intellectual Property Matters**

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 the Company's products or components breach another party's rights. These threats may seek that the Company make royalty payments, that the Company 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 occurred late last year and the panel issued an Interim Reasoned Award on March 20, 2008 containing a final decision and ruling that none of the Company's accused products infringed the asserted patent. Per the terms of the license agreement, this decision is binding and non-appealable. However, on April 10, 2008, the other party filed a motion with the panel to reconsider its decision on the merits, which the Company has opposed as being impermissible and procedurally improper. On May 1, 2008, the panel issued its decision and order denying the other party's motion to reconsider the Interim Reasoned Award. The Company has until May 19, 2008 to file a motion to recover its costs, arbitrators' fees, and attorneys' fees, which the Company plans to do. The panel is scheduled to then hold another hearing to decide whether or not and to what extent to award the Company its costs and fees.

On April 18, 2008, LSI Logic Corporation ("LSI") and Agere Systems Inc. ("Agere") (which was acquired by LSI in 2007) filed a new patent infringement action with the U.S. International Trade Commission naming 18 semiconductor companies including the Company. LSI and Agere also filed a parallel patent infringement lawsuit against the same companies in the Federal District Court in the Eastern District of Texas. LSI and Agere are seeking an injunction and damages in an unspecified amount relating to such alleged infringement. The patent relates to semiconductor wafer processing. The Company believes that it is already licensed to the asserted patent through pre-existing patent license agreements with LSI and Agere, and that these licenses cover all of the Company's relevant wafer operations. The Company is attempting to resolve the matter informally with LSI and Agere, but if that is not successful, the Company intends to defend the litigation vigorously. While the Company can make no assurances 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 flow.

Prior to the acquisition of AMIS by the Company on March 17, 2008, on July 19, 2007, AMIS was served with an amended complaint filed against its operating company, AMI Semiconductor, Inc., and its Belgian subsidiary, AMI Semiconductor Belgium B.V.B.A., by PowerDsine, Inc., and PowerDsine, Ltd., subsidiaries of MicroSemi Corporation, in the United States District Court for the Southern District of New York related to AMIS's recently announced power-over-Ethernet ("PoE") products. The complaint alleges that AMIS breached the terms of a nondisclosure agreement between PowerDsine and AMIS Belgian subsidiary by using PowerDsine's confidential information to develop AMIS's PoE products and that AMIS interfered with an employment contract they had with a former employee who left PowerDsine and came to work for AMIS. This second claim was later dismissed by PowerDsine on August 10, 2007. In the complaint, PowerDsine seeks injunctive relief and damages in excess of \$150.0 million. AMIS has denied PowerDsine's claims and has filed counterclaims against PowerDsine and Microsemi. Discovery in the case is proceeding. The Company believes that PowerDsine's asserted claims are without merit and that resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flow.

Prior to the acquisition of AMIS by the Company on March 17, 2008, in January 2003, Ricoh Company, Ltd. ("Ricoh") filed in the U.S. District Court for the District of Delaware a complaint against AMIS and other parties alleging infringement of a patent owned by Ricoh. The case has been transferred to the U.S. District Court for the Northern District of California. Ricoh is seeking an injunction and damages in an unspecified amount relating to such alleged infringement. The patents relate to certain methodologies for the automated design of custom semiconductors. This case had been scheduled to go to trial in March 2007. However, in December 2006

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

the court issued an order staying the case pending a re-examination proceeding filed by Synopsys, Inc. (“Synopsys”) before the U.S. Patent & Trademark Office (“PTO”) challenging the validity of the patent claims at issue in this case. In December 2007, the PTO issued a final rejection of all claims over prior art. Ricoh filed a response to the final rejection in January 2008, which is currently under review by the PTO. On March 28, 2008, an additional re-examination petition was filed by Synopsys with the PTO challenging the validity of the claims at issue on new grounds. On April 17, 2008 the stay order was lifted despite the ongoing reexamination proceedings by the PTO and the court scheduled a hearing for September 26, 2008. The Company believes that the asserted claims are without merit, and even if meritorious, that the Company will be indemnified against damages by Synopsys, and that resolution of this matter will not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flow.

**Note 10: Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), “Business Combinations” (“FAS 141(R)"). FAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree, as well as the goodwill acquired. Significant changes from current practice resulting from FAS 141(R) include the expansion of the definitions of a “business” and a “business combination.” For all business combinations (whether partial, full or step acquisitions), the acquirer will record 100% of all assets and liabilities of the acquired business, including goodwill, generally at their fair values; contingent consideration will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settlement; and acquisition-related transaction and restructuring costs will be expensed rather than treated as part of the cost of the acquisition. FAS 141(R) also establishes disclosure requirements to enable users to evaluate the nature and financial effects of the business combination. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is not permitted. The Company is currently evaluating the potential impact the adoption of FAS 141(R) will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51” (“SFAS 160”). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact the adoption of SFAS 160 will have on its consolidated financial statements

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“FAS 161”). FAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an

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

entity's financial position, financial performance, and cash flows. The provisions of FAS 161 are effective for any quarter ending after February 28, 2009. The Company is currently evaluating the impact of the provisions of FAS 161.

**Note 11: 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 and custom products. 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 and custom products segment includes parts manufactured for other semiconductor companies, principally in the Gresham, Oregon facility as well as custom products from our acquisition of AMIS. These segments represent the Company's view of the business and as such are used to evaluate progress of major initiatives.

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

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

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

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.

Information about segments for the quarter ended March 28, 2008 and for the quarter ended March 30, 2007 is as follows (in millions):

	<u>Automotive &amp; Power Regulation</u>	<u>Computing Products</u>	<u>Digital &amp; Consumer Products</u>	<u>Standard Products</u>	<u>Manufacturing Services &amp; Custom Products</u>	<u>Total</u>
<b>Quarter ended March 28, 2008:</b>						
Revenues from external customers	\$ 106.1	\$ 108.0	\$ 42.0	\$ 118.5	\$ 47.3	\$421.9
Segment gross profit	\$ 41.6	\$ 39.4	\$ 23.1	\$ 50.9	\$ 1.9	\$156.9
Segment operating income (loss)	\$ 19.6	\$ 18.0	\$ 11.7	\$ 33.0	\$ (4.6)	\$ 77.7
<b>Quarter ended March 30, 2007:</b>						
Revenues from external customers	\$ 106.0	\$ 80.2	\$ 42.2	\$ 119.4	\$ 26.4	\$374.2
Segment gross profit	\$ 42.0	\$ 29.9	\$ 21.4	\$ 49.7	\$ (2.2)	\$140.8
Segment operating income	\$ 19.4	\$ 12.9	\$ 10.4	\$ 31.8	\$ (3.1)	\$ 71.4

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):

	<u>Quarter Ended</u>	
	<u>March 28, 2008</u>	<u>March 30, 2007</u>
Gross profit for reportable segments	\$ 156.9	\$ 140.8
Unallocated amounts:		
Other unallocated manufacturing costs	(10.3)	(4.2)
Gross profit	<u>\$ 146.6</u>	<u>\$ 136.6</u>
Operating income for reportable segments	\$ 77.7	\$ 71.4
Unallocated amounts:		
Restructuring, asset impairments and other, net	(5.8)	—
Other unallocated manufacturing costs	(10.3)	(4.2)
Other unallocated operating expenses	(30.8)	(4.5)
Operating income	<u>\$ 30.8</u>	<u>\$ 62.7</u>

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.

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

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):

	<u>Quarter Ended</u>	
	<u>March 28,</u> <u>2008</u>	<u>March 30,</u> <u>2007</u>
United States	\$ 100.4	\$ 100.0
The Other Americas	0.5	0.6
United Kingdom	57.9	58.4
Belgium	10.5	—
China	170.6	140.3
Singapore	36.7	37.5
The Other Asia/Pacific	45.3	37.4
	<u>\$ 421.9</u>	<u>\$ 374.2</u>

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

	<u>March 28,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
China	\$ 120.0	\$ 118.1
United States	184.3	161.0
Europe	174.7	117.6
Malaysia	99.2	97.5
Japan	74.1	66.4
The Other Asia/Pacific	79.6	52.2
The Other Americas	2.3	2.1
	<u>\$ 734.2</u>	<u>\$ 614.9</u>

For the quarter ended March 29, 2008, one of the Company's customers accounted for 10% of the Company's total revenues. For the quarter ended March 30, 2007, one of the Company's customers accounted for 13% of the Company's total revenues.

**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 12, 2008 and our unaudited consolidated financial statements for the fiscal quarter ended March 28, 2008 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 6.9% during 2008 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, analog, digital signal processing, mixed-signal, advanced logic, data management semiconductors and standard component devices. 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 custom application specific integrated circuits use analog, digital signal processing, mixed-signal and advanced logic capabilities to act as the brain behind many of our automotive, medical, military, aerospace, consumer and industrial customers' unique products. 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 power supply, automotive, communications, computer, consumer, medical, industrial, mobile phone and military/aerospace. 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 29,300 products and we shipped approximately 8.1 billion units in the first quarter of 2008 as compared to approximately 7.5 billion units in the first quarter of 2007. 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.

On March 17, 2008, we completed the purchase of AMIS Holdings, Inc., a Delaware corporation ("AMIS"), whereby AMIS became our wholly-owned subsidiary. At the effective time of the merger, each issued and outstanding share of common stock of AMIS was converted into 1.15 shares of our common stock. The

## [Table of Contents](#)

aggregate purchase price was approximately \$939.7 million, which includes common stock, RSUs, options and warrants issued and estimated direct transaction costs. We believe the combination will enhance shareholder value by (1) accelerating our transformation from a discrete supplier to a key supplier with scale, (2) strengthening our end-market presence, facilitating our entry into new markets and deepening customer relationships, (3) obtaining significant scale and cash flow generation, and (4) achieving cost savings by leveraging our operational excellence and accelerating the ramp of activity in our Gresham, Oregon wafer fabrication facility.

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 and custom products. 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 and custom products segment includes parts manufactured for other semiconductor companies, principally in the Gresham, Oregon facility as well as custom products from our acquisition of AMIS. 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.

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

We have over 580 direct customers worldwide, and we also service over 200 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 Motorola, Delta, Hewlett-Packard, Hella, Schneider, GE, Samsung, Continental Automotive Systems, Siemens, Honeywell, Apple, Dell, Nokia, Intel, and Sony; (2) electronic manufacturing service providers, such as Flextronics and Jabil; 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, Idaho, California, Texas, Oregon, China, Slovakia, the Czech Republic, Korea, Belgium, Canada, Germany, Bulgaria, Ireland and France, and we currently operate manufacturing facilities in Arizona, Oregon, Idaho, Belgium, 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 off-shore, low-cost manufacturing facilities. During the fourth quarter of 2007 we entered into an agreement to sell the wafer fabrication facility and associated land for approximately \$16 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 \$9.8 million. The sale is scheduled to be

## [Table of Contents](#)

completed the second quarter of 2008. 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 for 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 \$9.5 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 \$8.2 million over the next three to four quarters. The remaining unused building is 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.

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. During the quarter ended March 28, 2008 there were no repurchases of the Company's common stock. Neither these shares, nor shares previously repurchased by us, had been reissued or retired as of March 28, 2008.

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.

### *New Product Innovation*

As a result of the success of our research and development initiatives, excluding the introduction of lead-free products, we introduced 171 new product families in 2007 and an additional 36 new product family in the first quarter of 2008. Our new product development efforts continue to be focused on building solutions in power management and customer specific applications that appeal to leading 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 85 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.

## [Table of Contents](#)

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 resulting in an increase to the number of die per square inch;
- reducing the number of product platforms and process flows; and
- focusing production on profitable product families.

## **Outlook**

Based upon product booking trends, backlog levels, anticipated manufacturing services revenue decline of \$8.0 million sequentially and estimated turns levels, we anticipate that total revenues will be approximately \$545.0 million to \$560.0 million in the second quarter of 2008. Included in the total revenue guidance is the expectation of sequential product revenue growth of approximately two to six percent for ON Semiconductor stand alone and approximately \$150.0 million of revenue associated with the completed acquisition of AMIS. Backlog levels at the beginning of the second quarter of 2008 were up from backlog levels at the beginning of the first quarter of 2008 and represent over 85 percent of our anticipated second quarter 2008 revenues. We expect that average selling prices for the second quarter of 2008 will be down approximately two percent sequentially. For the second quarter, we expect gross margin of approximately 32% to 34% percent. For the second quarter we also expect total operating expenses of approximately \$136.0 million to \$141.0 million. We anticipate that net interest expense will be approximately \$10.0 million to \$12.0 million for the second quarter of 2008 and taxes to be approximately \$4.0 million. Our current fully diluted share count is approximately 410 million shares based on recent share price.

[Table of Contents](#)

**Results of Operations**

**Quarter Ended March 28, 2008 Compared to Quarter Ended March 30, 2007**

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 March 28, 2008 and March 30, 2007. The amounts in the following table are in millions:

	Quarter ended		Dollar Change
	March 28, 2008	March 30, 2007	
Revenues	\$ 421.9	\$ 374.2	\$ 47.7
Cost of revenues	275.3	237.6	37.7
Gross profit	146.6	136.6	10.0
Operating expenses:			
Research and development	40.3	30.8	9.5
Selling and marketing	25.8	22.9	2.9
General and administrative	23.8	20.2	3.6
In-process research and development	17.7	—	17.7
Amortization of acquisition-related intangible assets	2.4	—	2.4
Restructuring, asset impairments and other net	5.8	—	5.8
Total operating expenses	115.8	73.9	41.9
Operating income	30.8	62.7	(31.9)
Other income (expenses):			
Interest expense	(9.3)	(9.7)	0.4
Interest income	2.0	2.8	(0.8)
Other	(1.9)	(0.5)	(1.4)
Loss on debt prepayment	—	(0.1)	0.1
Other income (expenses), net	(9.2)	(7.5)	(1.7)
Income before income taxes and minority interests	21.6	55.2	(33.6)
Income tax provision	(1.1)	(0.6)	(0.5)
Minority interests	0.3	(0.6)	0.9
Net income	\$ 20.8	\$ 54.0	(33.2)

*Revenues*

Revenues were \$421.9 million and \$374.2 million during the quarters ended March 28, 2008 and March 30, 2007, respectively. The increase from first quarter of 2007 to the first quarter of 2008 was primarily due to revenues from the ADI and AMIS acquisitions, partially offset by a reduction in average selling prices of approximately 7.7%. The revenues by reportable segment were as follows (dollars in millions):

	Quarter Ended March 28, 2008	As a % Revenue	Quarter Ended March 30, 2007	As a % Revenue	Dollar Change	% Change
Automotive and Power Regulation	\$ 106.1	25%	\$ 106.0	28%	\$ 0.1	0%
Computing Products	108.0	26%	80.2	21%	27.8	35%
Digital and Consumer Products	42.0	10%	42.2	11%	(0.2)	0%
Standard Products	118.5	28%	119.4	32%	(0.9)	-1%
Manufacturing Services & Custom Products	47.3	11%	26.4	7%	20.9	79%
Total revenues	\$ 421.9		\$ 374.2		\$ 47.7	

## [Table of Contents](#)

Revenues from automotive and power regulation were flat in the first quarter of 2008 as compared to the first quarter of 2007. Increases in revenues for AC to DC conversion, rectifier, and auto power products, were offset by decreases in revenues from LDO and voltage regulator and DC to DC conversion products.

Revenues from computing products increased \$27.8 million, or 35%, in the first quarter of 2008 as compared to the first quarter of 2007. The increase is attributed to an increase in revenues from power switching, low and medium voltage MOSFET and signal and interface products.

Revenues from digital and consumer products were relatively flat in the first quarter of 2007 as compared to the first quarter of 2008. Increases in revenues for low voltage products were offset by decreases in revenues from filter products.

Revenues from standard products decreased \$0.9 million, or 1%, in the first quarter of 2008 as compared to the first quarter of 2007. The decrease is attributed to reduced revenues in high frequency, thyristor, and bipolar power products, partially offset by increased revenue from small signal, protection and zener products.

Revenues from manufacturing services and custom products increased by \$20.9 million, or 79%, in the first quarter of 2008 as compared to the first quarter of 2007. The increase is attributable to revenues from the AMIS business, partially offset by a decline in activity pursuant to the LSI wafer supply agreement.

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

	<u>Quarter Ended</u> <u>March 28, 2008</u>	<u>As a %</u> <u>Revenue</u>	<u>Quarter Ended</u> <u>March 30, 2007</u>	<u>As a %</u> <u>Revenue<sup>(1)</sup></u>
Americas	\$ 100.9	24%	\$ 100.6	27%
Asia/Pacific	252.6	60%	215.2	58%
Europe	68.4	16%	58.4	16%
Total	<u>\$ 421.9</u>	<u>100%</u>	<u>\$ 374.2</u>	<u>100%</u>

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

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

For the quarter ended March 28, 2008, one of our customers accounted for 10% of the Company's total revenues.

For the quarter ended March 30, 2007, one of our customers accounted for 13% of our net revenues.

## [Table of Contents](#)

### *Gross Profit*

Our gross profit was \$146.6 million in the first quarter of 2008 compared to \$136.6 million in the first quarter of 2007. As a percentage of revenues, our gross profit was 34.7% in the first quarter of 2008 as compared to 36.5% in the first quarter of 2007. Gross profit as a percentage of revenue decreased during the first quarter of 2008 as compared to the first quarter of 2007 primarily due to the sale of inventory that was written up to fair value in connection with the acquisitions of AMIS and the CPU Voltage and Thermal Products Group from ADI combined with the decrease in average selling prices. The gross profit by reportable segment in each of these quarters were as follows (dollars in millions):

	<u>Quarter Ended March 28, 2008</u>	<u>As a % Net Revenue</u>	<u>Quarter Ended March 30, 2007</u>	<u>As a % Net Revenue</u>	<u>Dollar Change</u>	<u>% Change</u>
Automotive & Power Regulation	\$ 41.6	9.9%	\$ 42.0	11.2%	\$ (0.4)	-1.0%
Computing Products	39.4	9.3%	29.9	8.0%	9.5	31.8%
Digital & Consumer Products	23.1	5.5%	21.4	5.7%	1.7	7.9%
Standard Products	50.9	12.1%	49.7	13.3%	1.2	2.4%
Manufacturing Services & Custom Products	1.9	0.5%	(2.2)	-0.6%	4.1	-186.4%
Gross profit by segment	156.9		140.8		<u>\$ 16.1</u>	
Unallocated Manufacturing	(10.3)	-2.4%	(4.2)	-1.1%		
Total gross profit	<u>\$ 146.6</u>	34.7%	<u>\$ 136.6</u>	36.5%		

Gross profit from automotive and power regulation decreased \$0.4 million, or 1.0%, in the first quarter of 2008 as compared to the first quarter of 2007. The decrease is attributed to decreases in gross profit from DC to DC conversion, voltage regulators, and analog power products, partially offset by increases in gross profit from AC to DC conversion, rectifier, and auto power products.

Gross profit from computing products increased \$9.5 million, or 31.8%, in the first quarter of 2008 as compared to the first quarter of 2007. The increase is attributed to increases in gross profit from power switching, low and medium voltage MOSFET and signal and interface products.

Gross profit from digital and consumer products increased \$1.7 million, or 7.9%, in the first quarter of 2008 as compared to the first quarter of 2008. The increase is attributed to increases in gross profit from low voltage products, partially offset by decreases in gross profit from filters and analog switches products.

Gross profit from standard products increased \$1.2 million, or 2.4%, in the first quarter of 2008 as compared to the first quarter of 2007. The increase is attributed to increases in gross profit from protection, small signal, bipolar power and zener products, partially offset by decreases in gross profit from high frequency and thyristor products.

Gross profit from manufacturing services and custom products increased \$4.1 million, in the first quarter of 2008 as compared to the first quarter of 2007. The increase is attributed to gross profit from the March 17, 2008 AMIS acquisition.

### *Operating Expenses*

Research and development expenses were \$40.3 million in the first quarter of 2008 compared to \$30.8 million in the first quarter of 2007, representing an increase of \$9.5 million, or 31%. Research and development expenses represented 9.5% and 8.2% of revenues in the first quarter of 2008 and the first quarter of

## [Table of Contents](#)

2007, respectively. The increase in research and development expenses was attributable to increased expense associated with on-going research and development activities at AMIS, the development of new products in our Gresham fabrication facility, the expansion of our digital production capacities in our Gresham fabrication facility and employee salaries and wages associated with increased head count, partially offset by decreased employee performance bonuses.

Selling and marketing expenses were \$25.8 million in the first quarter of 2008 compared to \$22.9 million in the first quarter of 2007, representing an increase of \$2.9 million, or 13%. Selling and marketing expenses represented 6.1% and 6.1% of revenues in the first quarter of 2008 and the first quarter of 2007, respectively. The increase in selling and marketing expense is primarily attributed to selling and marketing activities at AMIS combined with increases in employee salaries and wages from increased head count, partially offset by decreased employee performance bonuses.

General and administrative expenses were \$23.8 million in the first quarter of 2008 compared to \$20.2 million in the first quarter of 2007, representing a increase of \$3.6 million, or 17.8%. General and administrative expenses represented 5.6% and 5.4% of revenues in the third quarter of 2007 and the third quarter of 2006, respectively. The increase in general and administrative expense is primarily attributed to increased stock compensation expense and general and administrative expense associated with AMIS, partially offset by decreased employee performance bonuses.

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

Restructuring, asset impairment and other, net were \$5.8 million in the first quarter of 2008 compared to zero in the first quarter of 2007.

In March 2008, we acquired AMIS and announced plans to integrate the operations of the two companies for cost savings purposes. As part of these plans, certain duplicative positions were eliminated and certain overlapping or duplicative contracts with external suppliers were renegotiated with terms applicable to the combined company. During March 2008, we recorded employee separation charges of \$1.7 million and exit costs of \$1.8 million related to the 2008 acquisition of AMIS. The employee separation charges of \$1.7 million include \$0.3 million for severance benefits of 20 individuals who were our employees prior to the acquisition and \$1.4 million for severance benefits of 16 individuals who were employees of AMIS prior to the acquisition but are required to render services until their termination date to receive severance benefits. The termination benefits for the 16 AMIS employees are being recognized ratably from the acquisition date to their termination date. We expect to record an additional \$3.8 million through the end of the fourth quarter of 2008. The exit costs of \$1.8 million were for charges incurred to terminate software licenses under certain lease agreements with external suppliers found to be duplicative between us and AMIS.

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 lower-cost manufacturing facilities. During the quarter ended March 28, 2008, we recorded \$0.8 million of restructuring charges related to this plan for employee separation costs.

In March 2008, we recorded \$2.2 million of asset impairments. Prior to March 2008, we had capitalized approximately \$5.9 million of software development costs associated with modifications and enhancements to several business process and related systems. The \$2.2 million of asset impairments resulted from the fact that we currently have no plans to use certain internally developed software, and management does not consider this a temporary cessation of use. The decision to cease development of these assets in the first quarter of 2008 was triggered by the acquisition of AMIS, which required a reallocation of corporate resources from these projects to the projects associated with the integration of AMIS into our computer systems.

## [Table of Contents](#)

As mentioned previously, during the quarter ended March 28, 2008, we terminated certain lease agreements with external suppliers for software licenses. These agreements had previously been recorded as capital lease obligations on the consolidated balance sheet. Included in restructuring, asset impairments and other, net on the statement of operations for the quarter ended March 28, 2008 is a gain of \$0.7 million for the reversal of the capital lease obligation, partially offset by the write-off of the net book value of the software licenses that were included in property, plant and equipment.

### *Operating Income*

Information about operating income from our reportable segments for the quarters ended March 28, 2008 and March 30, 2007 are as follows, in millions:

	<u>Automotive &amp; Power Regulation</u>	<u>Computing Products</u>	<u>Digital &amp; Consumer Products</u>	<u>Standard Products</u>	<u>Manufacturing Services &amp; Custom Products</u>	<u>Total</u>
Quarter ended March 28, 2008:						
Segment operating income	\$ 19.6	\$ 18.0	\$ 11.7	\$ 33.0	\$ (4.6)	\$77.7
Quarter ended March 30, 2007:						
Segment operating income	\$ 19.4	\$ 12.9	\$ 10.4	\$ 31.8	\$ (3.1)	\$71.4

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

	<u>Quarter Ended</u>	
	<u>March 28, 2008</u>	<u>March 30, 2007</u>
Operating income for reportable segments	\$ 77.7	\$ 71.4
Unallocated amounts:		
Restructuring, asset impairments and other, net	(5.8)	—
Other unallocated manufacturing costs	(10.3)	(4.2)
Other unallocated operating expenses	(30.8)	(4.5)
Operating income	<u>\$ 30.8</u>	<u>\$ 62.7</u>

### *Interest Expense and Other*

Interest expense decreased and was \$9.3 million in the first quarter of 2008 compared to \$9.7 million in the first quarter of 2007. Our average month-end long-term debt balance (including current maturities) in the first quarter of 2008 was \$1,166.6 million with a weighted average interest rate of 3.2% compared to \$1,172.8 million and a weighted average interest rate of 3.3% in the first quarter of 2007. See also “Liquidity and Capital Resources—Key Financing Events” for a description of our refinancing activities.

See Part I, Item 1 “Financial Statements,” Note 9 “Commitments and Contingencies” of this Form 10-Q for contingencies relating to other legal proceedings and matters including intellectual property matters.

### *Provision for Income Taxes*

Provision for income taxes was \$1.1 million in the first quarter of 2008 compared to \$0.6 million in the first quarter of 2007. The provision for the first quarter of 2008 included \$0.5 million for income and withholding taxes of certain of our foreign operations and \$0.6 million of interest on reserves for potential liabilities in foreign taxing jurisdictions. The provision for the first quarter of 2007 included \$1.9 million charge for income and withholding taxes of certain of our foreign operations and \$0.6 million of new reserves for potential liabilities in foreign taxing jurisdictions, offset by the reversal of \$1.9 million of previously accrued income taxes for anticipated audit issues.

## [Table of Contents](#)

### Liquidity and Capital Resources

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

#### Cash Requirements

##### Commercial Commitments, Contractual 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 March 28, 2008 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						
	Total	Remainder of 2008	2009	2010	2011	2012	Thereafter
<b>Commercial commitments <sup>(1)</sup></b>							
Standby letter of credit	\$ 1.4	\$ 1.4	\$ —	\$ —	\$ —	\$ —	\$ —
Bank guarantees	13.9	1.5	4.9	—	0.2	0.1	7.2
<b>Commercial commitments</b>	<b>\$ 15.3</b>	<b>\$ 2.9</b>	<b>\$ 4.9</b>	<b>\$ —</b>	<b>\$ 0.2</b>	<b>\$ 0.1</b>	<b>\$ 7.2</b>
	Payments Due by Period						
	Total	Remainder of 2008	2009	2010	2011	2012	Thereafter
<b>Contractual obligations</b>							
Long-term debt	\$1,225.1	\$ 66.1	\$ 68.2	\$288.0	\$25.1	\$126.3	\$ 651.4
Operating leases <sup>(1)(2)</sup>	84.0	15.4	17.7	14.0	10.6	8.5	17.8
Other long-term obligations—pension plans	6.8	0.8	3.0	3.0	—	—	—
Purchase obligations <sup>(1)</sup> :							
Capital purchase obligations	58.2	41.4	9.8	2.4	2.2	2.1	0.3
Foundry and inventory purchase obligations	95.6	83.2	4.3	3.6	1.9	2.1	0.5
Mainframe support	1.5	0.8	0.7	—	—	—	—
Information technology and communication services	31.3	9.4	9.4	6.8	4.1	1.3	0.3
Other	9.6	5.4	2.7	1.3	0.1	0.1	—
<b>Total contractual obligations</b>	<b>\$1,512.1</b>	<b>\$ 222.5</b>	<b>\$115.8</b>	<b>\$319.1</b>	<b>\$44.0</b>	<b>\$140.4</b>	<b>\$ 670.3</b>

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

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

Our long-term debt includes approximately \$173.7 million outstanding under senior bank facilities, approximately \$260.0 million of zero coupon convertible senior subordinated notes due 2024, approximately \$95.0 million of 1.875% convertible senior subordinated notes due 2025, approximately \$484.0 million of 2.625% convertible senior subordinated notes due 2026, approximately \$9.0 million outstanding under a note payable to a Japanese bank, approximately \$47.5 million outstanding under loan facilities with two Chinese banks, approximately \$24.2 million outstanding with a Philippine bank, approximately \$39.3 million outstanding with a bank in Belgium, approximately \$0.5 million note payable to Oregon State due 2009 and approximately \$91.9 million of capital lease obligations. (See Note 6: "Long-Term Debt" of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q).

## [Table of Contents](#)

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 5: "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 \$307.9 million at March 28, 2008 and our cash flow from operations for the three months ending March 28, 2008 was \$136.9 million. We believe that our cash flows from operations, coupled with existing cash and cash equivalents will be adequate to fund our contractual obligations and other operating and capital needs through at least March 28, 2009. Our senior bank facilities include a \$25.0 million revolving facility. Letters of credit totaling \$1.4 million were outstanding under the revolving facility at March 28, 2008. 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. Depending on the significance of any particular customer and other relevant factors, we may agree to provide more favorable indemnity rights to such customers for valid warranty claims.

In connection with the acquisition of LSI's Gresham, Oregon wafer fabrication facility and ADI's PTC Business, we entered into various agreements with LSI and ADI, respectively. Pursuant to certain of these agreements, we agreed to indemnify LSI and ADI, respectively, 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

## [Table of Contents](#)

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, 2007 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 March 28, 2009. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

## [Table of Contents](#)

### *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*

As discussed in Note 6, "Long-Term Debt" to our unaudited consolidated financial statements included elsewhere in this report, our debt covenants require us to stay within certain leverage ratios based on the consolidated earnings (net income) before interest expense, interest income, provisions for income taxes, depreciation and amortization expense ("EBITDA") for the last four quarters. Consolidated EBITDA, as defined under the documents for our senior bank facilities totaled approximately \$392.3 million for the fiscal quarter ending March 28, 2008.

If we were not in compliance with the covenants contained in our senior bank facilities, the holders of our senior bank facilities could cause all outstanding amounts, which was \$173.7 million as of March 28, 2008 to be due and payable immediately. If we were unable to repay, refinance or restructure that indebtedness, the holders 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. As of March 28, 2008 approximately \$839.0 million remained outstanding under other debt that may be accelerated based on this covenant.

### *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 \$350.1 million at March 28, 2008. Our working capital, excluding cash, was \$42.2 million at March 28, 2008, and has fluctuated between \$(31.3) million and \$82.4 million over the last eight quarter-ends.

## [Table of Contents](#)

The components of our working capital at March 28, 2008 and December 31, 2007 are set forth below (in millions), followed by explanations for changes between December 31, 2007 and March 28, 2008 for cash and cash equivalents and any other changes greater than \$5 million:

	<u>March 28, 2008</u>	<u>December 31, 2007</u>	<u>Change</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 307.9	\$ 274.6	\$ 33.3
Receivables, net	245.7	175.2	70.5
Inventories, net	362.4	220.5	141.9
Other current assets	89.7	68.3	21.4
Deferred income taxes	—	6.7	(6.7)
Total current assets	<u>1,005.7</u>	<u>745.3</u>	<u>260.4</u>
<b>Current Liabilities</b>			
Accounts payable	238.6	163.5	75.1
Accrued expenses	208.7	101.3	107.4
Income taxes payable	3.1	3.5	(0.4)
Accrued interest	7.9	1.4	6.5
Deferred income on sales to distributors	120.8	120.4	0.4
Deferred income taxes	1.0	—	1.0
Current portion of long-term debt	75.5	30.8	44.7
Total current liabilities	<u>655.6</u>	<u>420.9</u>	<u>234.7</u>
<b>Net working capital</b>	<u>\$ 350.1</u>	<u>\$ 324.4</u>	<u>\$ 25.7</u>

The increase of \$33.3 million in cash and cash equivalents is primarily due to \$136.9 million in cash provided by operating activities, \$184.8 million in cash provided by investing activities, which includes \$172.7 million of cash acquired as part of the AMIS acquisition, partially offset by \$289.6 million in cash used in financing activities.

The increase of \$70.5 million in receivables, net is primarily the result of the receivables acquired from the purchase of AMIS, partially offset by non-recourse sales of receivables at the end of the fourth quarter of 2008.

The increase of \$141.9 million in inventory is the result of raw materials, work in process and finished goods inventory obtained from the acquisition of AMIS.

The increase of \$21.4 million in other current assets is primarily the result of prepayments and other current assets obtained from the acquisition of AMIS, partially offset by the reduction of prepaid amounts relating to finished goods inventory received from ADI.

The net decrease of \$6.7 million in current deferred income tax assets and liabilities was primarily the result of differences between the assigned values and the tax bases of the recognized assets acquired and liabilities assumed from the acquisition of AMIS.

The increase of \$75.1 million in accounts payable is the result of liabilities assumed from the acquisition of AMIS and from liabilities for new capital equipment received during the first quarter that had not been paid by March 28, 2008.

The increase of \$107.4 million in accrued expenses was primarily attributable to the liabilities assumed from the acquisition of AMIS, increases in sales related reserves and increased expenses incurred for professional fees associated with the acquisition of AMIS.

## [Table of Contents](#)

The increase of \$6.5 million in accrued interest was due primarily to interest on our senior bank facilities and our convertible senior subordinated notes that is scheduled to be paid during the second quarter of 2008.

The increase of \$44.7 million in the current portion of long-term debt was due primarily to obligations under the short-term bridge loan assumed from the acquisition of AMIS.

### *Long-Term Assets and Liabilities*

Our long-term assets consist primarily of property, plant and equipment, intangible assets, goodwill, 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 \$15.5 million during the first three months of 2008 compared to \$49.0 million during the first three months of 2007. 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**

### *2008 Financing Events*

#### ***March 2008 Short-Term Bridge Loan***

As part of the AMIS acquisition in March 2008, we assumed the obligations under a short-term bridge loan entered into by one of our European subsidiaries. The bridge loan is with a Belgian bank for 25.0 million Euros due May 31, 2008 with the proceeds to be used to finance capital expenditures and other general corporate purposes. The loan bears interest at an annual rate of the one week Euribor plus 0.50%, with interest payable weekly.

#### ***Capital Lease Obligations***

We have various capital lease obligations primarily for machinery and equipment assets. In March 2008, we sold assets with a net book value of \$26.2 million for \$33.7 million to a leasing agency under a sale-leaseback arrangement. We deferred a gain on the transaction in the amount of \$7.5 million. Concurrently, we purchased the assets under a capital lease agreement with a net present value of minimum lease payments of \$29.3 million, which will be depreciated over the lease term of five years.

#### ***April 2008 Japan Loan***

In April 2008, our Japanese subsidiary entered into a one-year loan agreement with a Japanese bank to finance capital expenditures and other general corporate purposes. The loan amount of 500 million yen, approximately \$5.0 million USD at March 28, 2008, bears interest at an annual rate of 1.875%, with interest payable quarterly.

## [Table of Contents](#)

### *Debt Instruments, Guarantees and Related Covenants*

The following table presents the components of long-term debt as of March 28, 2008 and December 31, 2007 (dollars in millions):

	March 28, 2008	December 31, 2007
<b>Senior Bank Facilities:</b>		
Term Loan, interest payable quarterly at 4.4463% and 6.5800%, respectively	\$ 173.7	\$ 173.7
Revolver	—	—
	173.7	173.7
Zero Coupon Convertible Senior Subordinated Notes due 2024 <sup>(1)</sup>	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025 <sup>(1)</sup>	95.0	95.0
2.625% Convertible Senior Subordinated Notes due 2026 <sup>(1)</sup>	484.0	484.0
2.25% Note payable to Japanese bank due 2008 through 2010, interest payable semi-annually	9.0	9.6
Loan with Philippines Bank due 2008 through 2012, interest payable quarterly at 5.3768% and 6.2475%, respectively	24.2	25.0
Loan with Chinese bank due 2009, interest payable quarterly at 3.7987% and 6.1100%, respectively	14.0	14.0
Loan with Chinese bank due 2009, interest payable quarterly at 3.7987% and 6.1100%, respectively	6.0	6.0
Loan with Chinese bank due 2008 through 2013, interest payable semi-annually at 6.0488%	7.9	8.2
Loan with Chinese bank due 2008 through 2009, interest payable semi-annually at 6.3375%	14.6	15.7
Loan with Chinese bank due 2009, interest payable semi-annually at 3.8338% and 6.3413%, respectively	5.0	5.0
Short-term bridge loan due 2008, interest payable weekly at 4.75%	39.3	—
5.0% Note payable to Oregon State due 2009	0.5	0.5
Capital lease obligations	91.9	62.7
	1,225.1	1,159.4
Less: Current maturities	(75.5)	(30.8)
	<u>\$1,149.6</u>	<u>\$ 1,128.6</u>

- (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

## [Table of Contents](#)

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 March 28, 2008, 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 March 28, 2009.

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 SCI, 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.

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. Any future debt could contain financial and other covenants more restrictive than those that are currently applicable.

### *Cash Management*

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

### **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.

## [Table of Contents](#)

*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 and sales of manufacturing services net of provisions for related sales returns and allowances when persuasive evidence of an arrangement exists, title and risk of loss pass to the customer (which is generally upon shipment), the price is fixed or determinable and collectability is reasonably assured. 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. As a result of our inability to reliably estimate up front the effect of the returns and allowances with these distributors, we defer the related revenue and margin on sales to distributors. Although payment terms vary, most distributor agreements require payment within 30 days.

Taxes assessed by government 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. Our original equipment manufacturer customers do not have the right to return our products other than pursuant to the provisions of our standard warranty. Sales to distributors, however, are typically made pursuant to agreements that provide return rights with respect to discontinued or slow-moving products. Under our general agreements, distributors are allowed to return any product that we have removed from our price book. In addition, agreements with our distributors typically contain standard stock rotation provisions permitting limited levels of product returns. However, since we defer recognition of revenue and gross profit on sales to distributors until the distributor resells the product, due to our inability to reliably estimate up front the effect of the returns and allowances with these distributors, sales returns and allowances have minimal impact on our results of operations. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. Given that our revenues consist of a high volume of relatively similar products, our actual returns and allowances and warranty claims have not traditionally fluctuated significantly from period to period, and our returns and allowances and warranty provisions have historically been reasonably accurate.

We generally warrant that products sold to our customers will, at the time of shipment, be free from defects in workmanship and materials and conform to our approved specifications. Our standard warranty extends for a period that is the greater of (i) three years from the date of shipment or (ii) the period of time specified in the customer's standard warranty (provided that the customer's standard warranty is stated in writing and extended to purchasers at no additional charge). At the time revenue is recognized, we establish an accrual for estimated warranty expenses associated with our sales, recorded as a component of cost of revenues. In addition, we also offer cash discounts to customers for payments received by us within an agreed upon time, generally 10 days after shipment. We accrue reserves for cash discounts as a reduction to accounts receivable and a reduction to revenues, based on experience with each customer.

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

*Inventories.* We carry our inventories not related to an acquisition 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.

## [Table of Contents](#)

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 quarter of 2007 for approximately \$4.0 million. Upon the acquisition of a company such as AMIS, we used management estimates to determine the fair value of the inventory as of the acquisition date. The methodology involves stepping up the value of acquired finished goods and work-in-process to expected sales value less variable costs to dispose. The total increases in inventory value related to recording it at fair value for the AMIS and ADI acquisitions were \$72.8 million and \$3.1 million dollars, respectively. As this inventory is shipped to customers, it will significantly decrease the gross margin reported on those future sales until the inventory is completely sold.

*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.

## [Table of Contents](#)

*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 is estimated on the date of grant using a lattice-based option valuation model. 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 continue to 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 December 2007, the FASB issued SFAS No. 141 (Revised 2007), “Business Combinations” (“FAS 141(R)"). FAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree, as well as the goodwill acquired. Significant changes from current practice resulting from FAS 141(R) include the expansion of the definitions of a “business” and a “business combination.” For all business combinations (whether partial, full or step acquisitions), the acquirer will record 100% of all assets and liabilities of the acquired business, including goodwill, generally at their fair values; contingent consideration will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settlement; and acquisition-related transaction and restructuring costs will be expensed rather than treated as part of the cost of the acquisition. FAS 141(R) also establishes disclosure requirements to enable users to evaluate the nature and financial effects of the business combination. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is not permitted. We are currently evaluating the potential impact the adoption of FAS 141(R) will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51” (“SFAS 160”). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating the impact the adoption of SFAS 160 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“FAS 161”). FAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an

## [Table of Contents](#)

entity's financial position, financial performance, and cash flows. The provisions of FAS 161 are effective for any quarter ending after February 28, 2009. We are currently evaluating the impact of the provisions of FAS 161.

### **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 March 28, 2008, our long-term debt (including current maturities) totaled \$1,225.1 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled \$940.4 million. We do have interest rate exposure with respect to the \$284.7 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 \$1.4 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.

*Changes in Internal Controls Over Financial Reporting.* On March 17, 2008, we acquired AMIS. AMIS operated under its own set of systems and internal controls and we are currently maintaining those systems and much of that control environment until we are able to incorporate AMIS' processes into our own systems and control environment. We currently expect to complete the incorporation of AMIS' operations into our systems and control environment in the first half of 2009.

There have been no other changes to 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 March 28, 2008 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, consolidated 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

## [Table of Contents](#)

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.

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.

On October 1, 2007, the plaintiffs submitted their briefing in support of their motions to certify different classes in the six focus cases. The issuer defendants and the underwriter defendants filed separate oppositions to those motions on December 21, 2007. The motions to certify classes in the six focus cases are not yet fully briefed and remain pending. In addition, on August 14, 2007, the plaintiffs filed amended complaints in the six focus cases. The issuer defendants and the underwriter defendants separately moved to dismiss the claims against them in the amended complaints in the six focus cases. On March 26, 2008, the District Court issued an order in which it denied in substantial part the motions to dismiss the amended complaints in the six focus cases.

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.

### **Intellectual Property Matters**

We face risk to exposure from claims of infringement of the intellectual property rights of others. In the ordinary course of business, we receive letters asserting that our products or components breach another party’s rights. These threats may seek that we make royalty payments, that we stop use of such rights, or other remedies. We are in binding arbitration on one such claim under an existing license agreement. The arbitration hearing occurred late last year and the panel issued an Interim Reasoned Award on March 20, 2008 containing a final decision and ruling that none of our accused products infringed the asserted patent. Per the terms of the license agreement, this decision is binding and non-appealable. However, on April 10, 2008, the other party filed a motion with the panel to reconsider its decision on the merits, which we have opposed as being impermissible and procedurally improper. On May 1, 2008, the panel issued its decision and order denying the other party’s motion to reconsider the Interim Reasoned Award. We have until May 19, 2008 to file a motion to recover our costs, arbitrators’ fees, and attorneys’ fees, which we plan to do. The panel is scheduled to then hold another hearing to decide whether or not and to what extent to award us our costs and fees.

On April 18, 2008, LSI Logic Corporation (“LSI”) and Agere Systems Inc. (“Agere”) (which was acquired by LSI in 2007) filed a new patent infringement action with the U.S. International Trade Commission naming 18 semiconductor companies including us. LSI and Agere also filed a parallel patent infringement lawsuit against

## [Table of Contents](#)

the same companies in the Federal District Court in the Eastern District of Texas. LSI and Agere are seeking an injunction and damages in an unspecified amount relating to such alleged infringement. The patent relates to semiconductor wafer processing. We believe that we are already licensed to the asserted patent through pre-existing patent license agreements with LSI and Agere, and that these licenses cover all of our relevant wafer operations. We are attempting to resolve the matter informally with LSI and Agere, but if that is not successful, we intend to defend the litigation vigorously. While we can make no assurances 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.

Prior to the acquisition of AMIS by us on March 17, 2008, on July 19, 2007, AMIS was served with an amended complaint filed against its operating company, AMI Semiconductor, Inc., and its Belgian subsidiary, AMI Semiconductor Belgium B.V.B.A., by PowerDsine, Inc., and PowerDsine, Ltd., subsidiaries of MicroSemi Corporation, in the United States District Court for the Southern District of New York related to AMIS's recently announced power-over-Ethernet ("PoE") products. The complaint alleges that AMIS breached the terms of a nondisclosure agreement between PowerDsine and its Belgian subsidiary by using PowerDsine's confidential information to develop AMIS's PoE products and that AMIS interfered with an employment contract they had with a former employee who left PowerDsine and came to work for AMIS. This second claim was later dismissed by PowerDsine on August 10, 2007. In the complaint, PowerDsine seeks injunctive relief and damages in excess of \$150.0 million. AMIS has denied PowerDsine's claims and has filed counterclaims against PowerDsine and Microsemi. Discovery in the case is proceeding. We believe that PowerDsine's asserted claims are without merit and that resolution of this matter will not have a material adverse effect on our consolidated financial position, results of operations or cash flow.

Prior to the acquisition of AMIS by us on March 17, 2008, in January 2003, Ricoh Company, Ltd. ("Ricoh") filed in the U.S. District Court for the District of Delaware a complaint against AMIS and other parties alleging infringement of a patent owned by Ricoh. The case has been transferred to the U.S. District Court for the Northern District of California. Ricoh is seeking an injunction and damages in an unspecified amount relating to such alleged infringement. The patents relate to certain methodologies for the automated design of custom semiconductors. This case had been scheduled to go to trial in March 2007. However, in December 2006 the court issued an order staying the case pending a re-examination proceeding filed by Synopsys, Inc. ("Synopsys") before the U.S. Patent & Trademark Office ("PTO") challenging the validity of the patent claims at issue in this case. In December 2007, the PTO issued a final rejection of all claims over prior art. Ricoh filed a response to the final rejection in January 2008, which is currently under review by the PTO. On March 28, 2008, an additional re-examination petition was filed by Synopsys with the PTO challenging the validity of the claims at issue on new grounds. On April 17, 2008 the stay order was lifted despite the ongoing examination proceedings by the PTO and the court scheduled a hearing for September 26, 2006. We believe that the asserted claims are without merit, and even if meritorious, that we will be indemnified against damages by Synopsys, and that resolution of this matter will not have a material adverse effect on our consolidated financial position, results of operations, financial condition or cash flows.

### **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. All 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 under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements are often characterized by the use of words such as "believes," "estimates," "expects," "projects," "may," "will," "intends," "plans," or "anticipates," or by discussions of strategy, plans or intentions. 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 below, our revenues and operating performance, changes in overall economic conditions, the cyclical nature of the semiconductor industry, changes

## [Table of Contents](#)

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 (including the recently completed purchase of the PTC Business from ADI and the completed merger transaction with AMIS), 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, 2007 and from time to time in our other Securities and Exchange Commission reports. 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.

The risk factors included in our Form 10-K have not materially changed other than our discussion below regarding the trends, risks and uncertainties concerning risks relating to the merger of the Company with AMIS.

On March 12, 2008, a special meeting of the shareholders of both the Company and AMIS was held to vote on, among other things, the merger between AMIS and the Company. The stockholders of both companies voted in favor of the proposed acquisition of AMIS in a stock-for-stock merger. Additionally, all other conditions to the consummation of the merger, including receipt of all required regulatory approvals, were satisfied (or waived) and AMIS's outstanding debt, which became due and payable as a result of the merger, was repaid by us. Furthermore, the appropriate anti-trust and competition approvals were granted with no requirements, limitations or costs or restrictions on the conduct of our business following the merger. On March 17, 2008 we successfully completed the previously announced acquisition of AMIS.

As a result of the preceding events, the risk factors contained in our Form 10-K for the fiscal year ended December 31, 2007 relating to (i) the failure of the merger to be completed and consequences thereof, (ii) the possibility that the regulatory agencies would require certain conditions to their approval that could either stop the merger or impair its benefits and (iii) discussing the requirement that we pay or refinance all of AMIS's outstanding debt concurrent with the completion of the merger, are no longer material risks and are hereby deleted or revised (as appropriate). In addition, certain of the risk factors contained in our Form 10-K for the fiscal year ended December 31, 2007 discussed potential risk and events that could occur if the merger was consummated, such as, among other things, (i) potential dilution of existing stockholders, (ii) diversion of management and (iii) the Company incurring transaction costs. Because the merger with AMIS is now consummated, the risks and events discussed in these risk factors have already occurred, in whole or part.

In addition, our risk factor contained in our Form 10-K for the fiscal year ended December 31, 2007 entitled "*We are subject to litigation risks, including securities class action litigation, which may be costly to defend and the outcome of which is uncertain*" made reference to a stockholder class action lawsuit that was filed in Bannock County, Idaho District Court against AMIS, its directors, and FP-McCartney L.L.C. and Citigroup Venture Capital Equity Partners, L.P., two of AMIS's largest stockholders.

We hereby update this risk factor with the following information. The lawsuit alleges that the defendants breached their fiduciary duties to AMIS stockholders in connection with the proposed merger by advancing their individual interests at the expense of AMIS stockholders. On March 3, 2008, counsel for the parties in the stockholder lawsuit entered into a memorandum of understanding in which they agreed upon the terms of a settlement of the litigation, which would include the dismissal with prejudice of all claims against all the

## [Table of Contents](#)

defendants, including AMIS and its directors. The proposed settlement is conditional upon, among other things, the execution of an appropriate Stipulation of Settlement and final approval of the proposed settlement by the court. The proposed settlement contemplates that plaintiff's lead counsel will apply to the court for an award of attorneys fees and costs in the amount of \$500,000.

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

None.

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

None.

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

Set forth below is information concerning each matter submitted to a vote at our special meeting of stockholders held on March 12, 2008.

Stockholders adopted and approved an amendment to our certificate of incorporation to increase the number of authorized shares of our stock from 600,100,000 shares to 750,100,000 shares, of which 100,000 shares are designated as preferred stock, par value \$0.01 per share, and 750,000,000 shares are designated as common stock, par value \$0.01 per share. This amendment was ratified by the following vote:

<b>For:</b>	228,890,166
<b>Against:</b>	22,119,175
<b>Abstain:</b>	223,722

Stockholders approved the issuance of our common stock pursuant to the Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), dated as of December 13, 2007, by and among ON Semiconductor Corporation, Orange Acquisition Corporation and AMIS, as the same may be amended from time to time (the "Share Issuance"). The Share Issuance was ratified by the following vote:

<b>For:</b>	229,367,682
<b>Against:</b>	21,776,082
<b>Abstain:</b>	89,299

The two proposals listed above were conditioned upon each other and the approval of each was required for completion of the merger contemplated by the Merger Agreement. Following stockholder approval as set forth above, on March 17, 2008, we announced that we had completed the acquisition of AMIS and pursuant to the Merger Agreement the merger subsidiary was merged with and into AMIS, with AMIS thereafter becoming our subsidiary.

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

None.

## Table of Contents

### **Item 6. Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger and Reorganization, dated as of December 13, 2007, by and among ON Semiconductor Corporation, Orange Acquisition Corporation and AMIS Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Corporation's Current Report on Form 8-K filed with the SEC on December 13, 2007) *
3.1	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation, as further amended through March 26, 2008 <sup>(1)</sup>
10.1	Summary of ON Semiconductor Corporation Non-Employee Director Compensation Arrangement (as approved by the Board of Directors on February 14, 2008) <sup>(1)(3)</sup>
10.2	Bills of Sale, dated as of March 11, 2008, executed by Semiconductor Components Industries, LLC (as seller) to General Electric Capital Corporation (as buyer) (incorporated by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K filed with the SEC on March 17, 2008)
10.3	Lease Agreement dated as of November 7, 2006 between Semiconductor Components Industries, LLC (as lessee) and General Electric Capital Corporation (as lessor) (incorporated by reference to Exhibit 10.2 to the Corporation's Current Report on Form 8-K filed with the SEC on November 13, 2006)
10.4	Amendment No. 1, dated as of March 11, 2008, to Lease Agreement dated as of November 7, 2006 between Semiconductor Components Industries, LLC (as lessee) and General Electric Capital Corporation (as lessor) (incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the SEC on March 17, 2008)
10.5	Schedule No. 002, executed as of March 11, 2008, by Semiconductor Components Industries, LLC and General Electric Capital Corporation to the Lease Agreement (incorporated by reference to Exhibit 10.4 to the Corporation's Current Report on Form 8-K filed with the SEC on March 17, 2008)
10.6	Schedule No. 003, executed as of March 11, 2008, by Semiconductor Components Industries, LLC and General Electric Capital Corporation to the Lease Agreement (incorporated by reference to Exhibit 10.5 to the Corporation's Current Report on Form 8-K filed with the SEC on March 17, 2008)
10.7	Corporate Guaranty of ON Semiconductor Corporation, executed as of March 11, 2008, in favor of General Electric Capital Corporation (incorporated by reference to Exhibit 10.6 to the Corporation's Current Report on Form 8-K filed with the SEC on March 17, 2008)
10.8	Form of AMIS Holdings, Inc. Voting Agreement for Christine King, dated as of December 13, 2007, by and among ON Semiconductor Corporation, AMIS Holdings, Inc. and Christine King (incorporated by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K filed with the SEC on December 13, 2007)
10.9	Form of AMIS Holdings, Inc. Voting Agreement for executive officers, directors, and certain other stockholders of AMIS Holdings, Inc., other than Christine King, dated as of December 13, 2007, by and among ON Semiconductor Corporation, directors and executive officers of AMIS Holdings, Inc. and certain significant stockholders of AMIS Holdings, Inc. other than Christine King (incorporated by reference to Exhibit 10.2 to ON's Current Report on Form 8-K filed with the SEC on December 13, 2007)

## Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
10.10	Form of ON Semiconductor Corporation Voting Agreement, dated as of December 13, 2007, by and among ON Semiconductor Corporation, AMIS Holdings, Inc. and certain ON Semiconductor Corporation stockholders (incorporated by reference to Exhibit 10.3 to ON's Current Report on Form 8-K filed with the SEC on December 13, 2007)
10.11	Restricted Stock Award Agreement under the ON Semiconductor 2000 Stock Incentive Plan (Form of Awards for Non-employee Directors) <sup>(1)(3)</sup>
10.12	Amendment No. 1 to Employment Agreement with Bob Mahoney executed on April, 29 2008 <sup>(1)(3)</sup>
10.13	Amended and Restated AMIS Holdings, Inc. 2000 Equity Incentive Plan (incorporated by reference to Exhibit 10 to AMIS Holdings, Inc. Third Quarter Form 10-Q filed with the SEC on November 12, 2003) <sup>(3)</sup>
10.14	Form of 2000 Equity Incentive Plan Stock Option Agreement (Nonstatutory Stock Option Agreement) (incorporated by reference to Exhibit 10.1 to AMIS Holdings, Inc. Current Report on Form 8-K filed with the SEC on February 7, 2005) <sup>(3)</sup>
10.15	Form of U.S. Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.4 to AMIS Holdings, Inc. Third Quarter Form 10-Q filed with the SEC on November 9, 2006) <sup>(3)</sup>
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 <sup>(1)</sup>
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 <sup>(1)</sup>
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 <sup>(2)</sup>

\* Certain schedules have been omitted and the Corporation agrees to furnish supplementally to the SEC a copy of any omitted schedules upon request.

(1) Filed herewith.

(2) Furnished herewith.

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

**SIGNATURES**

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

Date: May 6, 2008

ON SEMICONDUCTOR CORPORATION  
(Registrant)

By: \_\_\_\_\_ /s/ DONALD COLVIN  
**Donald Colvin**  
**Executive Vice President and Chief**  
**Financial Officer**

## Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger and Reorganization, dated as of December 13, 2007, by and among ON Semiconductor Corporation, Orange Acquisition Corporation and AMIS Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Corporation's Current Report on Form 8-K filed with the SEC on December 13, 2007)*
3.1	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation, as further amended through March 26, 2008 <sup>(1)</sup>
10.1	Summary of ON Semiconductor Corporation Non-Employee Director Compensation Arrangement (as approved by the Board of Directors on February 14, 2008) <sup>(1)(3)</sup>
10.2	Bills of Sale, dated as of March 11, 2008, executed by Semiconductor Components Industries, LLC (as seller) to General Electric Capital Corporation (as buyer) (incorporated by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K filed with the SEC on March 17, 2008)
10.3	Lease Agreement dated as of November 7, 2006 between Semiconductor Components Industries, LLC (as lessee) and General Electric Capital Corporation (as lessor) (incorporated by reference to Exhibit 10.2 to the Corporation's Current Report on Form 8-K filed with the SEC on November 13, 2006)
10.4	Amendment No. 1, dated as of March 11, 2008, to Lease Agreement dated as of November 7, 2006 between Semiconductor Components Industries, LLC (as lessee) and General Electric Capital Corporation (as lessor) (incorporated by reference to Exhibit 10.3 to the Form 8-K filed with the SEC on March 17, 2008)
10.5	Schedule No. 002, executed as of March 11, 2008, by Semiconductor Components Industries, LLC and General Electric Capital Corporation to the Lease Agreement (incorporated by reference to Exhibit 10.4 to the Corporation's Current Report on Form 8-K filed with the SEC on March 17, 2008)
10.6	Schedule No. 003, executed as of March 11, 2008, by Semiconductor Components Industries, LLC and General Electric Capital Corporation to the Lease Agreement (incorporated by reference to Exhibit 10.5 to the Corporation's Current Report on Form 8-K filed with the SEC on March 17, 2008)
10.7	Corporate Guaranty of ON Semiconductor Corporation, executed as of March 11, 2008, in favor of General Electric Capital Corporation (incorporated by reference to Exhibit 10.6 to the Corporation's Current Report on Form 8-K filed with the SEC on March 17, 2008)
10.8	Form of AMIS Holdings, Inc. Voting Agreement for Christine King, dated as of December 13, 2007, by and among ON Semiconductor Corporation, AMIS Holdings, Inc. and Christine King (incorporated by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K filed with the SEC on December 13, 2007)
10.9	Form of AMIS Holdings, Inc. Voting Agreement for executive officers, directors, and certain other stockholders of AMIS Holdings, Inc., other than Christine King, dated as of December 13, 2007, by and among ON Semiconductor Corporation, directors and executive officers of AMIS Holdings, Inc. and certain significant stockholders of AMIS Holdings, Inc. other than Christine King (incorporated by reference to Exhibit 10.2 to ON's Current Report on Form 8-K filed with the SEC on December 13, 2007)
10.10	Form of ON Semiconductor Corporation Voting Agreement, dated as of December 13, 2007, by and among ON Semiconductor Corporation, AMIS Holdings, Inc. and certain ON Semiconductor Corporation stockholders (incorporated by reference to Exhibit 10.3 to ON's Current Report on Form 8-K filed with the SEC on December 13, 2007)

## Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
10.11	Restricted Stock Award Agreement under the ON Semiconductor 2000 Stock Incentive Plan (Form of Awards for Non-employee Directors) (1)(3)
10.12	Amendment No. 1 to Employment Agreement with Bob Mahoney executed on April 29, 2008 <sup>(1)(3)</sup>
10.13	Amended and Restated AMIS Holdings, Inc. 2000 Equity Incentive Plan (incorporated by reference to Exhibit 10 to AMIS Holdings, Inc. Third Quarter Form 10-Q filed with the SEC on November 12, 2003) <sup>(3)</sup>
10.14	Form of 2000 Equity Incentive Plan Stock Option Agreement (Nonstatutory Stock Option Agreement) (incorporated by reference to Exhibit 10.1 to AMIS Holdings, Inc. Current Report on Form 8-K filed with the SEC on February 7, 2005) <sup>(3)</sup>
10.15	Form of U.S. Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.4 to AMIS Holdings, Inc. Third Quarter Form 10-Q filed with the SEC on November 9, 2006) <sup>(3)</sup>
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 <sup>(1)</sup>
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 <sup>(1)</sup>
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 <sup>(2)</sup>

\* Certain schedules have been omitted and the Corporation agrees to furnish supplementally to the SEC a copy of any omitted schedules upon request.

(1) Filed herewith.

(2) Furnished herewith.

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

**AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF SCG HOLDING CORPORATION**

SCG Holding Corporation (hereinafter referred to as the "Corporation"), organized and existing under and by virtue of the Delaware General Corporation Law, does hereby certify as follows:

1. The Corporation filed its original Certificate of Incorporation (hereinafter referred to as the "Certificate of Incorporation") with the Secretary of State of Delaware on June 18, 1992, and the name of the Corporation at that time was Motorola Energy Systems, Inc.

2. By unanimous written consent of the Board of Directors of the Corporation, a resolution was duly adopted, pursuant to Sections 242 and 245 of the Delaware General Corporation Law, setting forth the Amended and Restated Certificate of Incorporation of the Corporation and declaring said Amended and Restated Certificate of Incorporation of the Corporation advisable. By written consent of the stockholders of the Corporation, a resolution was duly adopted, pursuant to Sections 228, 242 and 245 of the Delaware General Corporation Law, setting forth and approving such Amended and Restated Certificate of Incorporation of the Corporation.

**RESOLVED:** That the Certificate of Incorporation, as amended to date, be and hereby is amended and restated in its entirety as follows:

FIRST: The name of the corporation is:

SCG Holding Corporation.

SECOND: The registered office of the Corporation is to be located at 1209 Orange Street, in the City of Wilmington, in the County of New Castle, in the State of Delaware. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the Delaware General Corporation Law.

FOURTH:

(1) The aggregate number of shares which the Corporation shall have authority to issue is 300,100,000 of which 100,000 of said shares shall be par value \$0.01 and shall be

designated Preferred Stock, and 300,000,000 of said shares shall be par value \$0.01 per share and shall be designated Common Stock.

(2) Subject to the limitations and in the manner provided by law, shares of the Preferred Stock may be issued from time to time in series and the Board of Directors of the Corporation (hereinafter referred to as the "Board") is hereby authorized to establish and designate series of the Preferred Stock, to fix the number of shares constituting each series, and to fix the designations and the relative rights, preferences and limitations of the shares of each series and the variations in the relative rights, preferences and limitations as between series, and to increase and to decrease the number of shares constituting each series. Subject to the limitations and in the manner provided by law, the authority of the Board with respect to each series shall include but shall not be limited to the authority to determine the following:

(a) The designation of such series.

(b) The number of shares initially constituting such series.

(c) The increase and the decrease to a number not less than the number of the outstanding shares of such series, of the number of shares constituting such series theretofore fixed.

(d) The rate or rates and the times at which dividends on the shares of such series shall be paid, the form in which such dividends shall be paid or payable (which may include additional shares of capital stock of the Corporation) and whether or not such dividends shall be cumulative and, if such dividends shall be cumulative, the date or dates from and after which they shall accumulate; *provided, however*, that, if the stated dividends are not paid in full, the shares of all series of the Preferred Stock ranking *pari passu* shall share ratably in the

payment of dividends, including accumulations, if any, in accordance with the sums that would be payable on such shares if all dividends were declared and paid in full.

(e) Whether or not the shares of such series shall be redeemable and, if such shares shall be redeemable, the terms and conditions of such redemption, including but not limited to the date or dates upon or after which such shares shall be redeemable and the amount per share that shall be payable upon such redemption, which amount may vary under different conditions and at different redemption dates.

(f) The amount payable on the shares of such series in the event of the voluntary or involuntary liquidation, dissolution or winding up of the Corporation; *provided, however*, that the holders of such shares shall be entitled to be paid, or to have set apart for payment, not less than \$0.01 per share before the holders of shares of the Common Stock or the holders of any other class or series of stock ranking junior to the Preferred Stock as to rights on liquidation shall be entitled to be paid any amount or to have any amount set apart for payment; and *provided further*, that, if the amounts payable on liquidation are not paid in full, the shares of all series of the Preferred Stock ranking *pari passu* shall share ratably in any distribution of assets other than by way of dividends in accordance with the sums that would be payable in such distribution if all sums payable were discharged in full. A liquidation, dissolution or winding up of the Corporation, as such terms are used in this paragraph (f), shall not be deemed to be occasioned by or to include any consolidation or merger of the Corporation with or into any other corporation or other entity or corporations or other entities or a sale, lease or conveyance of all or a part of its assets.

(g) Whether or not the shares of such series shall have voting rights, in addition to the voting rights provided by law and, if such shares shall have such voting rights, the

terms and conditions thereof, including but not limited to the right of the holders of such shares to vote as a separate class either alone or with the holders of shares of one or more other series of Preferred Stock and the right to have more than one vote per share.

(h) Whether or not a sinking fund shall be provided for the redemption of the shares of such series and, if such a sinking fund shall be provided, the terms and conditions thereof.

(i) Whether or not a purchase fund shall be provided for purchase of the shares of such series, and, if such a purchase fund shall be provided, the terms and conditions thereof.

(j) Whether or not the shares of such series shall have conversion or exchange privileges, and, if such shares shall have conversion or exchange privileges, the terms and conditions of conversion or exchange, including but not limited to any provision for the adjustment of the conversion rate or the conversion price and whether conversion or exchange can be effected solely by the Corporation or the holder.

(k) Any other relative rights, preferences and limitations.

(3) Except as otherwise provided by law or by the resolution or resolutions providing for the issuance of any series of Preferred Stock, the holders of outstanding shares of Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes, each holder of record of shares of Common Stock being entitled to one vote for each share of Common Stock standing in such holder's name on the books of the Corporation.

FIFTH: The name and address of the incorporator is as follows:

Deborah J. Burmeister  
1303 East Algonquin Road  
Schaumburg, Illinois 60196

SIXTH: Unless and except to the extent that the By-Laws of the Corporation shall so require, the election of directors of the Corporation need not be by written ballot.

SEVENTH: In furtherance and not in limitation of the powers conferred by law, the Board is expressly authorized and empowered to adopt, amend and repeal the By-Laws of the Corporation by a majority vote at any regular or special meeting of the Board or by written consent, subject to the power of the stockholders of the Corporation to amend or repeal any By-Law of the Corporation made by the Board. Notwithstanding any other provision of this Amended and Restated Certificate of Incorporation or the By-Laws of the Corporation (and notwithstanding that a lesser percentage may be specified by law), the provisions of Article II, Sections 1, 2 and 5, Article III, Section 1, and Article VI of the By-Laws of the Corporation may not be amended or repealed, nor may any By-Law provision inconsistent therewith be adopted, by the stockholders of the Corporation, unless such action is approved by the affirmative vote of the holders of not less than sixty-six and two thirds percent ( $66\frac{2}{3}\%$ ) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, considered for purposes of this Article SEVENTH as a single class.

EIGHTH: The Corporation reserves the right at any time and from time to time to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Amended and Restated Certificate of

Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article EIGHTH.

Notwithstanding any other provisions of this Amended and Restated Certificate of Incorporation or the By-Laws of the Corporation (and notwithstanding that a lesser percentage may be specified by law), the provisions of this Article EIGHTH, Article SEVENTH, Article NINTH, Article TENTH, Article ELEVENTH, Article TWELFTH, Article THIRTEENTH and Article FOURTEENTH hereof may not be amended or repealed, nor may any Certificate of Incorporation provision inconsistent therewith be adopted, by the stockholders of the Corporation unless such action is approved by the affirmative vote of the holders of not less than sixty-six and two thirds percent (66 <sup>2</sup>/<sub>3</sub>%) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, considered for purposes of this Article EIGHTH as a single class.

NINTH: (1) The business and affairs of the Corporation shall be managed by or under the direction of a Board consisting of not fewer than six (6) nor more than eleven (11) directors (exclusive of directors referred to in the following paragraph), the exact number to be determined from time to time by resolution adopted by affirmative vote of a majority of such directors then in office. Upon the filing of this Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, the directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors determined by the Board pursuant to this Section (1). Class I directors shall serve for an initial term ending at the annual meeting of stockholders held in 2000, Class II directors for an initial term ending at the annual meeting of stockholders held in 2001 and Class III directors for an initial term ending at the annual meeting

of stockholders held in 2002. At each annual meeting of stockholders beginning in 2000, successors to the directors in the class whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the number of such directors and the election, term of office, filling of vacancies and other features of such directorships shall be governed by the provisions of Article FOURTH of this Amended and Restated Certificate of Incorporation and any resolution or resolutions adopted by the Board pursuant thereto, and such directors shall not be divided into classes unless expressly so provided therein.

(2) Subject to the rights of the holders of any one or more classes or series of Preferred Stock issued by the Corporation, any director, or the entire Board, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of not less than sixty-six and two thirds percent (66 <sup>2</sup>/<sub>3</sub>%) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors,

considered for purposes of this sentence as a single class. Any vacancy in the Board that results from an increase in the number of directors may be filled by a majority of the directors then in office, provided that a quorum is present, and any other vacancy may be filled only by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall hold office for the remaining term of his or her predecessor.

TENTH: No action required to be taken or that may be taken at any annual or special meeting of stockholders of the Corporation may be taken by stockholders of the Corporation except at such a meeting of stockholders.

ELEVENTH: The Corporation shall, to the full extent permitted by Section 145 of the Delaware General Corporation Law, as amended from time to time, indemnify all persons whom it may indemnify pursuant thereto.

TWELFTH: The Board shall have authority to authorize the issuance, from time to time without any vote or other action by the stockholders, of any or all shares of stock of the Corporation of any class at any time authorized, any securities convertible into or exchangeable for any such shares so authorized, and any warrant, option or right to purchase, subscribe for or otherwise acquire shares of stock of the Corporation for any such consideration and on such terms as the Board from time to time in its discretion lawfully may determine, which terms and conditions may include, without limitation, restrictions or conditions that preclude or limit the exercise, transfer or receipt thereof or that invalidate or void any such securities, warrants, options or rights; *provided, however*, that the consideration for the issuance of shares of stock of the Corporation having par value shall not be less than such par value. Stock so issued, for which the consideration has been paid to the Corporation, shall be fully paid stock, and the

holders of such stock shall not be liable to any further call or assessments thereon. Nothing in this Article TWELFTH shall be interpreted to limit the authority of the Board under the Delaware General Corporation Law or under any other provision of this Amended and Restated Certificate of Incorporation, to authorize the issuance of shares, warrants, options or rights or other securities or to take any other action.

THIRTEENTH: The By-Laws of the Corporation may establish procedures regulating the submission by stockholders of nominations and proposals for consideration at meetings of stockholders of the Corporation.

FOURTEENTH: The provisions of Section 203 of the Delaware General Corporation Law shall not apply to or govern the Corporation.

FIFTEENTH: Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as consequence

of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

SIXTEENTH: The personal liability of the directors of the Corporation is hereby eliminated to the fullest extent permitted by paragraph (7) of subsection (b) of Section 102 of the General Corporation Law of the State of Delaware, as the same may be amended or supplemented.

IN WITNESS WHEREOF, this certificate has been signed by its Vice President and Assistant Secretary and its corporate seal affixed this 5th day of April, 2000.

By: /s/ GEORGE H. CAVE

Name: George H. Cave

Title: Secretary

Signed and sworn (or affirmed) to before me on this 5th day of April, 2000.

/s/ LINDA PASCALE

Linda Pascale, Notary Public

[Notary Seal]

By: /s/ DARIO SACOMANI

Name: Dario Sacomani

Title: Senior Vice President and Chief Financial Officer

Signed and sworn (or affirmed) to before me on this 5th day of April, 2000.

/s/ LINDA PASCALE

Linda Pascale, Notary Public

[Notary Seal]

CERTIFICATE OF CORRECTION FILED TO CORRECT  
A CERTAIN ERROR IN THE AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION OF  
SCG HOLDING CORPORATION  
FILED IN THE OFFICE OF THE SECRETARY OF STATE  
OF DELAWARE ON APRIL 5, 2000

SCG Holding Corporation, organized and existing under and by virtue of the Delaware General Corporation Law, does hereby certify as follows:

1. The name of the corporation is SCG Holding Corporation.

2. That the Amended and Restated Certificate of Incorporation of SCG Holding Corporation (the "Certificate of Incorporation") was filed with the State of Delaware on April 5, 2000 and that said Certificate of Incorporation requires correction as permitted by Section 103 of the General Corporation Law of the State of Delaware.

3. The inaccuracy or defect of the Certificate of Incorporation to be corrected as follows: to amend and restate Article FOURTH, section (1).

4. Article FOURTH, section (1) of the Certificate of Incorporation is corrected to read as follows:

The aggregate number of shares which the Corporation shall have authority to issue is 300,100,000 of which 100,000 of said shares shall be par value \$0.01 and shall be designated Preferred Stock, and 300,000,000 of said shares shall be par value \$0.01 per share and shall be designated Common Stock.

[The remainder of this page is left intentionally blank.]

IN WITNESS WHEREOF, this certificate has been signed by its Senior Vice President and Secretary and its corporate seal affixed this 20th day of April, 2000.

By: /s/ GEORGE H. CAVE

Name: George H. Cave

Title: Secretary

Signed and sworn (or affirmed) to before me on this 20th day of April, 2000.

/s/ LINDA PASCALE

Linda Pascale, Notary Public

[Notary Seal]

By: /s/ WILLIAM GEORGE

Name: William George

Title: Senior Vice President

Signed and sworn (or affirmed) to before me on this 20th day of April, 2000.

/s/ LINDA PASCALE

Linda Pascale, Notary Public

[Notary Seal]

CERTIFICATE OF OWNERSHIP AND MERGER

MERGING

ON SEMICONDUCTOR CORPORATION

INTO

SCG HOLDING CORPORATION

(Pursuant to Section 253 of the  
Delaware General Corporation Law)

The undersigned officers of SCG Holding Corporation, a corporation incorporated as Motorola Energy Systems, Inc. on June 18, 1992, pursuant to the Laws of the State of Delaware (the "Surviving Corporation") and ON Semiconductor Corporation, a Delaware corporation incorporated on June 22, 2000 (the "Subsidiary"), hereby certify that:

(1) The Surviving Corporation is the sole owner of all of the outstanding common stock of the Subsidiary.

(2) The Board of Directors of the Surviving Corporation, at a duly convened meeting held on July 19, 2000, has determined to merge the Subsidiary with and into the Surviving Corporation, and the resolutions approving such merger are as follows:

WHEREAS, the Corporation owns all of the outstanding capital stock of ON Semiconductor Corporation, a Delaware corporation (the "Subsidiary"); and

WHEREAS, the Corporation desires to merge the Subsidiary into itself and to assume the liabilities and obligations of such entity in exchange for all the estate, property, rights and privileges of the Subsidiary; and

WHEREAS, the Board of Directors of this Corporation deems it advisable and in the best interest of the Corporation to effect the merger and to subsequently change the name of this Corporation to "ON Semiconductor Corporation" on the date hereof (the "Effective Date").

NOW, THEREFORE, IT IS HEREBY RESOLVED, that this Corporation merge into itself said Subsidiary on the Effective Date pursuant to Section 253 of the General Corporation Law of Delaware;

RESOLVED FURTHER, that it is in the best interest of this Corporation to assume the liabilities and obligations of the Subsidiary in exchange for all of the estate, property, right and privileges of the Subsidiary;

RESOLVED FURTHER, that the Certificate of Ownership and Merger presented to this Board and attached hereto as EXHIBIT A, be and it hereby is approved in its entirety;

RESOLVED FURTHER, that upon the Effective Date, pursuant to the Certificate of Ownership and Merger, as presented to and filed in the Office of the Delaware Secretary of State, the name of this Corporation shall be changed to "ON Semiconductor Corporation";

RESOLVED FURTHER, that the President or any Vice President and the Secretary or any Assistant Secretary of this Corporation are, and each of them hereby is, authorized and directed for and on behalf of the Corporation to execute, under the corporate seal of this Corporation, the Certificate of Ownership and Merger, with such modifications and amendments thereto as the officers shall approve, such approval being conclusively evidenced by the execution and delivery thereof, setting forth or attaching a copy of the resolutions, as applicable, to merge the Subsidiary into this Corporation and assume such entity's liabilities and obligations in exchange for all of the estate, property, rights and privileges of the Subsidiary on the Effective Date, and to promptly file the Certificate of Ownership and Merger in the office of the Secretary of State of the State of Delaware in order to reflect such date as the date of the merger and Corporation's name change, and certified copies thereof with the New Castle County Recorder of Deeds Office, and the County Clerk in each county in which the Subsidiary is located or their real property is situated, if any;

RESOLVED FURTHER, that the officers of this Corporation are, and each of them hereby is, authorized and directed for and on behalf of the Corporation to execute and deliver such other documents and to take any and all actions as each of them deems necessary or advisable, within or outside the State of Delaware, and within or outside of the United States of America, in order to effect the merger of the Subsidiary with and into this Corporation and the change of name of this Corporation, and to carry out the full intent of the foregoing resolutions; such determination being conclusively presumed by the officer's execution and delivery of any such document and taking any such action; and

RESOLVED FURTHER, that all prior acts or actions taken or to be taken by the officers of this Corporation in connection herewith are hereby ratified and approved.

(3) The merger of the Subsidiary into the Surviving Corporation shall become effective as of the date hereof and the name of the Surviving Corporation shall be changed to "ON Semiconductor Corporation" effective as of the date hereof.



**CERTIFICATE OF DESIGNATIONS**  
of  
**SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK**  
of  
**ON SEMICONDUCTOR CORPORATION**  
(Pursuant to Section 151 of the  
Delaware General Corporation Law)

ON Semiconductor Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), hereby certifies that the following resolutions were adopted by the Board of Directors of the Corporation (the "Board of Directors") pursuant to authority of the Board of Directors as required by Section 151 of the General Corporation Law of the State of Delaware:

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors in accordance with the provisions of the Amended and Restated Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"), the Board of Directors hereby creates a series of the Corporation's previously authorized preferred stock, \$0.01 par value (the "Preferred Stock"), and hereby states the designation and number thereof, and fixes the voting powers, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions thereof, as follows:

Series A Cumulative Convertible Preferred Stock:

I. Designation and Amount

The designation of this series of shares shall be "Series A Cumulative Convertible Preferred Stock" (the "Series A Preferred Stock"); the stated value per share shall be \$10,000 (the "Stated Value"); and the number of shares constituting such series shall be 10,000. The number of shares of the Series A Preferred Stock may be decreased from time to time by a resolution or resolutions of the Board of Directors or a duly authorized committee of the Board of Directors and by the filing of a certificate pursuant to the provisions of the General Corporation Law of the State of Delaware stating that such reduction has been so authorized; provided, however, that such number shall not be decreased below the aggregate number of shares of the Series A Preferred Stock then outstanding.

II. Rank

A. With respect to dividend rights, the Series A Preferred Stock shall rank (i) junior to each other class or series of Preferred Stock which by its terms ranks senior to the Series A Preferred Stock as to payment of dividends, (ii) on a parity with each other class or series of Preferred Stock which by its terms ranks on a parity with the Series A Preferred Stock as to payment of dividends, and (iii) prior to the Corporation's Common Stock, par value \$0.01 per share (the "Common Stock"), and, except as specified above, all other classes and series of capital stock of the Corporation hereafter issued by the Corporation. With respect to dividends,

all equity securities of the Corporation to which the Series A Preferred Stock ranks senior, including the Common Stock, are collectively referred to herein as the “Junior Dividend Securities”; all equity securities of the Corporation with which the Series A Preferred Stock ranks on a parity, if any, are collectively referred to herein as the “Parity Dividend Securities”; and all equity securities of the Corporation to which the Series A Preferred Stock ranks junior, if any, are collectively referred to herein as the “Senior Dividend Securities.”

B. With respect to the distribution of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the Series A Preferred Stock shall rank (i) junior to each other class or series of Preferred Stock which by its terms ranks senior to the Series A Preferred Stock as to distribution of assets upon liquidation, dissolution or winding up, (ii) on a parity with each other class or series of Preferred Stock which by its terms ranks on a parity with the Series A Preferred Stock as to distribution of assets upon liquidation, dissolution or winding up of the Corporation, and (iii) prior to the Common Stock, and, except as specified above, all other classes and series of capital stock of the Corporation hereinafter issued by the Corporation. With respect to the distribution of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, all equity securities of the Corporation to which the Series A Preferred Stock ranks senior, including the Common Stock, are collectively referred to herein as “Junior Liquidation Securities” (and together with the Junior Dividend Securities are referred to herein as the “Junior Securities”); all equity securities of the Corporation to which the Series A Preferred Stock ranks on parity, if any, are collectively referred to herein as “Parity Liquidation Securities” (and together with the Parity Dividend Securities are referred to herein as the “Parity Securities”); and all equity securities of the Corporation to which the Series A Preferred Stock ranks junior, if any, are collectively referred to herein as “Senior Liquidation Securities” (and together with the Senior Dividend Securities are referred to herein as the “Senior Securities”).

C. The Series A Preferred Stock shall be subject to the creation of Junior Securities and Parity Securities, but no Senior Securities or additional Series A Preferred Stock shall be created except in accordance with the terms hereof, including, without limitation, Article VII, Section E.

### III. Dividends

A. Dividends. Shares of Series A Preferred Stock shall accumulate dividends, payment of which shall be made in cash except as otherwise provided in this Article III, at a rate of 8.00% per annum or, if greater in any quarterly period, in an amount equal to the value of the dividends that would have been paid with respect to the shares of Common Stock into which such shares of Series A Preferred Stock could have been converted on the record date for the payment of such dividends with respect to the Common Stock. Dividends are due and shall be paid in four equal quarterly installments on the last day of March, June, September and December of each year (commencing December 31, 2001, it being understood that dividends shall be deemed to have accumulated from the Closing Date through December 31, 2001), or if any such date is not a Business Day, on the Business Day next preceding such day (each such date, regardless of whether any dividends have been paid or declared and set aside for payment on such date, a “Dividend Payment Date”), to holders of record (the “Registered Holders”) as they appear on the stock record books of the Corporation on the fifteenth day prior to the

relevant Dividend Payment Date; provided, however, that the Corporation may elect not to declare or make any dividend payment due hereunder on any Dividend Payment Date (other than as required in connection with any redemption of shares of Series A Preferred Stock or any liquidation, dissolution or winding up of the Corporation), and any such amount then due in respect of dividends shall constitute an Arrearage (as defined below). Dividends shall be paid only when, as and if declared by the Board of Directors out of funds at the time legally available for the payment of dividends. Dividends shall begin to accumulate on outstanding shares of Series A Preferred Stock from the date of issuance and shall be deemed to accumulate from day to day whether or not earned or declared until paid. Dividends shall accumulate on the basis of a 360-day year consisting of twelve 30-day months (four 90-day quarters) and the actual number of days elapsed in the period for which payable.

B. Accumulation. Dividends on the Series A Preferred Stock shall be cumulative, and from and after any Dividend Payment Date on which any dividend that has accumulated or been deemed to have accumulated through such date has not been paid in full or any payment date set for a redemption on which such redemption payment has not been paid in full, additional dividends shall accumulate in respect of the amount of such unpaid dividends or unpaid redemption payment (such amount, the "Arrearage") as provided in Section A of this Article III (or such lesser rate as may be the maximum rate that is then permitted by applicable law). Such additional dividends in respect of any Arrearage shall be deemed to accumulate from day to day whether or not earned or declared until the Arrearage is paid, shall be calculated as of such successive Dividend Payment Date and shall constitute an additional Arrearage from and after any such successive Dividend Payment Date to the extent not paid on such Dividend Payment Date. References in any Article herein to dividends that have accumulated or that have been deemed to have accumulated with respect to the Series A Preferred Stock shall include the amount, if any, of any Arrearage together with any dividends accumulated or deemed to have accumulated on such Arrearage pursuant to the immediately preceding two sentences. Additional dividends in respect of any Arrearage may be declared and paid at any time, in whole or in part, without reference to any regular Dividend Payment Date, to Registered Holders as they appear on the stock record books of the Corporation on such record date as may be fixed by the Board of Directors (which record date shall be no less than 10 days prior to the corresponding payment date).

C. Method of Payment. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accumulated and payable on all outstanding shares of Series A Preferred Stock shall be allocated pro rata on a share-by-share basis among all such shares then outstanding. Any such partial payment shall be made in cash. Dividends that are declared and paid in an amount less than the full amount of dividends accumulated on the Series A Preferred Stock (and on any Arrearage) shall be applied first to the earliest dividend which has not theretofore been paid. All cash payments of dividends on the shares of Series A Preferred Stock shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

#### IV. Liquidation Preference

In the event of a liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of then-outstanding shares of Series A Preferred Stock shall be entitled to receive out of the assets of the Corporation, whether such assets are capital or surplus of any nature, an amount per share equal to the greater of (i) the sum of (A) the dividends, if any, accumulated or deemed to have accumulated thereon to the date of final distribution to such holders, whether or not such dividends are declared, and (B) the Stated Value thereof, and (ii) the amount that would be payable to holders of the Series A Preferred Stock if the shares of Series A Preferred Stock had been converted into shares of Common Stock immediately prior to such liquidation, dissolution or winding up, and no more, before any payment shall be made or any assets distributed to the holders of any Junior Liquidation Securities. After any such payment in full, the holders of Series A Preferred Stock shall not, as such, be entitled to any further participation in any distribution of assets of the Corporation. All the assets of the Corporation available for distribution to stockholders after the liquidation preferences of any Senior Liquidation Securities, if any, shall be distributed ratably (in proportion to the full distributable amounts to which holders of Series A Preferred Stock and Parity Liquidation Securities, if any, are respectively entitled upon such dissolution, liquidation or winding up) among the holders of the then-outstanding shares of Series A Preferred Stock and Parity Liquidation Securities, if any, when such assets are not sufficient to pay in full the aggregate amounts payable thereon.

Neither a consolidation or merger of the Corporation with or into any other Person or Persons, nor a sale, conveyance, lease, exchange or transfer of all or part of the Corporation's assets for cash, securities or other property to a Person or Persons shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this Article IV entitling the Series A Preferred Stock to a liquidation preference hereunder, but the holders of shares of Series A Preferred Stock shall nevertheless be entitled from and after any such consolidation, merger or sale, conveyance, lease, exchange or transfer of all or part of the Corporation's assets to the rights in respect of a liquidation provided by this Article IV following any such transaction. Notice of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable to each holder of shares of Series A Preferred Stock in such circumstances shall be payable, shall be given by first-class mail, postage prepaid, mailed not less than 45 days prior to any payment date stated therein, to holders of record as they appear on the stock record books of the Corporation as of the date such notices are first mailed.

#### V. Mandatory Redemption

A. Mandatory Redemption. The Series A Preferred Stock shall not be redeemable except as provided in this Article V. At any time on or after the eighth anniversary of the original issuance of the Series A Preferred Stock, the Series A Preferred Stock, shall, to the extent that the Corporation shall have funds legally available therefore, be redeemable in whole or in part at the option of the holders of the Series A Preferred Stock at a redemption price per share in cash (the "Mandatory Redemption Price") equal to the greater of (i) Stated Value plus all unpaid dividends accumulated thereon to the date of actual payment of the Mandatory

Redemption Price, whether or not such dividends have been declared and (ii) 50% of the Current Market Price of the Conversion Shares and other assets and property, if any, into which one share of Series A Preferred Stock is then convertible, in each case determined as of the Mandatory Redemption Date.

B. Mandatory Redemption Notice and Redemption Procedures. If any holder of Series A Preferred Stock desires to exercise such holder's redemption right pursuant to Section A of this Article V, such holder shall give written notice to the Corporation stating such holder's election and specifying the number of shares to be redeemed pursuant to Section A of this Article V (the "Mandatory Redemption Notice"). Within 10 days after the receipt of such Mandatory Redemption Notice, the Corporation shall give written notice to such holder, by first-class mail, postage prepaid, at such holder's address as it appears on the records of the Company:

(i) notifying such holder of the date fixed for redemption (which shall not be later than 30 days after the receipt by the Corporation of the Mandatory Redemption Notice) (the "Mandatory Redemption Date");

(ii) stating that the Series A Preferred Stock may be converted until the close of business on the Business Day prior to the Mandatory Redemption Date by surrendering to the Corporation or its transfer agent for the Series A Preferred Stock the certificate or certificates for the shares to be converted, accompanied by written notice specifying the number of shares to be converted, and stating the name and address of the transfer agent of the Series A Preferred Stock, if any; and

(iii) stating that dividends shall cease to accrue on the Mandatory Redemption Date unless the Corporation defaults in the payment of the Mandatory Redemption Price.

The Corporation shall redeem the number of shares of Series A Preferred Stock so specified in the Mandatory Redemption Notice on the Mandatory Redemption Date.

C. Change of Control. In the event there occurs a Change of Control, any holder of record of shares of Series A Preferred Stock, in accordance with the procedures set forth in Section D of this Article V, may require the Corporation to redeem any or all of the shares of Series A Preferred Stock held by such holder in an amount per share equal to the sum of (i) the amount, if any, of all unpaid dividends accumulated thereon to the date of actual payment thereof, whether or not such dividends have been declared, and (ii) 101% of Stated Value (the "Change of Control Price").

D. Change of Control Notice and Redemption Procedures. Notice of any Change of Control shall be sent to the holders of record of the outstanding shares of Series A Preferred Stock not more than ten days following a Change of Control, which notice (a "Change of Control Notice") shall describe the transaction or transactions constituting such Change of Control and set forth each holder's right to require the Corporation to redeem any or all shares of Series A Preferred Stock held by him or her out of funds legally available therefor, the redemption date, which date shall be not more than 30 days from the date of such Change of Control Notice (the "Change of Control Redemption Date"), and the procedures to be followed by such holders in exercising his or her right to cause such redemption; provided, however, that if shares of

Series A Preferred Stock are owned by more than 50 holders or groups of Affiliated holders and if the Series A Preferred Stock is listed on any national securities exchange or quoted on any national quotation system, the Corporation shall give such Change of Control Notice by publication in a newspaper of general circulation in the Borough of Manhattan, The City of New York, within 30 days following such Change of Control and, in any case, a similar notice shall be mailed concurrently to each holder of shares of Series A Preferred Stock. Failure by the Corporation to give the Change of Control Notice as prescribed by the preceding sentence, or the formal insufficiency of any such Change of Control Notice, shall not prejudice the rights of any holder of shares of Series A Preferred Stock to cause the Corporation to redeem any such shares held by him or her. In the event a holder of shares of Series A Preferred Stock shall elect to require the Corporation to redeem any or all such shares of Series A Preferred Stock pursuant to Section C of this Article V, such holder shall deliver, prior to the Change of Control Redemption Date as set forth in the Change of Control Notice, or, if the Change of Control Notice is not given as required by this Section D, at any time following the last day the Corporation was required to give the Change of Control Notice in accordance with this Section D (in which case the Change of Control Redemption Date shall be the date which is the later of (x) 30 days following the last day the Corporation was required to give the Change of Control Notice in accordance with this Section D and (y) 15 days following the delivery of such election by such holder), a written notice, in the form specified by the Corporation (if the Corporation did in fact give the notice required by this Section D), to the Corporation so stating, and specifying the number of shares to be redeemed pursuant to Section C of this Article V; provided, however, that if all of the shares of the Series A Preferred Stock are owned by 50 or fewer holders or groups of Affiliated holders, such holders or groups may deliver a notice or an election to redeem at any time within 90 days following the occurrence of a Change of Control without awaiting receipt of a Change of Control Notice or the expiration of the time allowed for the delivery of a Change of Control Notice hereunder. The Corporation shall redeem the number of shares so specified on the Change of Control Redemption Date fixed by the Corporation or as provided in the preceding sentence. The Corporation shall comply with the requirements of Rules 13e-4 and 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the shares of Series A Preferred Stock as a result of a Change of Control. From and after the time the Change of Control Redemption Price is paid in accordance with the terms hereof with respect to any share of Series A Preferred Stock, all dividends on such share of Series A Preferred Stock shall cease to accumulate and all rights of the holder thereof as a holder of Series A Preferred Stock shall cease and terminate.

E. Deposit of Funds. The Corporation shall, no later than 11:00 a.m., New York City time, on any Mandatory Redemption Date or Change of Control Redemption Date pursuant to this Article V, deposit with its transfer agent or other redemption agent in the Borough of Manhattan, The City of New York having a capital and surplus of at least \$500,000,000, as a trust fund for the benefit of the holders of the shares of Series A Preferred Stock to be redeemed, cash that is sufficient in amount to redeem the shares to be redeemed in accordance with the Mandatory Redemption Notice or Change of Control Notice, with irrevocable instructions and authority to such transfer agent or other redemption agent to pay to the respective holders of such shares, as evidenced by a list of such holders certified by an officer of the Corporation, the Mandatory Redemption Price or Change of Control Redemption Price, as the case may be, upon

surrender of their respective share certificates. Such deposit shall be deemed to constitute full payment of such shares to the holders, and from and after the date of such deposit, all rights of the holders of the shares of Series A Preferred Stock that are to be redeemed as stockholders of the Corporation with respect to such shares, except the right to receive the Mandatory Redemption Price or Change of Control Price, as applicable, upon the surrender of their respective certificates and all rights under Articles VIII and X, shall cease and terminate. In case holders of any shares of Series A Preferred Stock called for redemption shall not, within two years after such deposit, claim the cash deposited for redemption thereof, such transfer agent or other redemption agent shall, upon demand, pay over to the Corporation the balance so deposited. Thereupon, such transfer agent or other redemption agent shall be relieved of all responsibility to the holders thereof and the sole right of such holders, with respect to shares to be redeemed, shall be to receive the Mandatory Redemption Price or Change of Control Price, as applicable, as general creditors of the Corporation. Any interest accrued on any funds so deposited shall belong to the Corporation, and shall be paid to it from time to time on demand.

#### VI. Restrictions on Dividends

So long as any shares of the Series A Preferred Stock are outstanding, the Board of Directors shall not declare, and the Corporation shall not pay or set apart for payment any dividend on any Junior Securities or Parity Securities or make any payment on account of, or set apart for payment money for a sinking or other similar fund for, the repurchase, redemption or other retirement of, any Junior Securities or Parity Securities or any warrants, rights or options exercisable for or convertible into any Junior Securities or Parity Securities (other than the repurchase, redemption or other retirement of debentures or other debt securities that are convertible or exchangeable into any Junior Securities or Parity Securities), or make any distribution in respect of the Junior Securities or Parity Securities, either directly or indirectly, and whether in cash, obligations or shares of the Corporation or other property (other than distributions or dividends in Junior Securities to the holders of Junior Securities), and shall not permit any Person directly or indirectly controlled by the Corporation to purchase or redeem any Junior Securities or Parity Securities or any warrants, rights, calls or options exercisable for or convertible into any Junior Securities or Parity Securities (other than the repurchase, redemption or other retirement of debentures or other debt securities that are convertible or exchangeable into any Junior Securities or Parity Securities) unless prior to or concurrently with such declaration, payment, setting apart for payment, repurchase, redemption or other retirement or distribution, as the case may be, all accumulated and unpaid dividends on shares of the Series A Preferred Stock not paid on the dates provided for in Section A of Article III (including Arrearages and accumulated dividends thereon and regardless of whether the Corporation shall have had the right to elect to defer such payments as provided for in Article III) shall have been paid, except that when dividends are not paid in full as aforesaid upon the shares of Series A Preferred Stock, all dividends declared on the Series A Preferred Stock and any series of Parity Dividend Securities shall be declared and paid pro rata so that the amount of dividends so declared and paid on Series A Preferred Stock and such series of Parity Dividend Securities shall in all cases bear to each other the same ratio that accumulated dividends (including interest accrued on or additional dividends accumulated in respect of such accumulated dividends) on the shares of Series A Preferred Stock and such Parity Dividend Securities bear to each other. Notwithstanding the foregoing, this paragraph shall not prohibit (i) the acquisition, repurchase,

exchange, conversion, redemption or other retirement for value of shares of Series A Preferred Stock or any Parity Dividend Security by the Corporation in accordance with the terms of such securities or (ii) the acquisition, repurchase, exchange, conversion, redemption or other retirement for value by the Corporation of any Junior Dividend Securities by the Corporation in accordance with obligations in existence at the time of original issuance of the Series A Preferred Stock.

## VII. Voting Rights

A. The holders of shares of Series A Preferred Stock shall have no voting rights except as set forth below or as otherwise from time to time required by law.

B. So long as any shares of the Series A Preferred Stock are outstanding, each share of Series A Preferred Stock shall entitle the holder thereof to vote on all matters voted on by holders of Common Stock, and the shares of Series A Preferred Stock shall vote together with shares of Common Stock as a single class. With respect to any such vote, each share of Series A Preferred Stock shall entitle its holder to a number of votes equal to the number of shares of Common Stock into which such share of Series A Preferred Stock would be convertible at the time of the record date with respect to such vote (assuming all conditions precedent to such conversion have been satisfied and that such conversion had occurred as of the record date for such vote), assuming for purposes of this Section B only, and without prejudice to any other provision of this Certificate of Designations, that the Conversion Price for purposes of determining such number of shares of Common Stock is \$3.19, which price shall be adjusted, *mutatis mutandis*, as set forth in Section B of Article VIII.

C. So long as the Investor or any of its Affiliates Beneficially Owns, in the aggregate, at least 50% of the Series A Preferred Stock, in the event that one or more of the Investor Nominees required to be designated for election to the Board of Directors pursuant to the Investment Agreement are not so designated or are not elected to the Board of Directors, then the number of directors constituting the Board of Directors shall, without further action, be increased by the number of such Investor Nominees not elected to the Board of Directors pursuant to the Investment Agreement, or if such requisite increase in the number of directors constituting the Board of Directors would require the approval of the Corporation's stockholders or is prohibited by the Investment Agreement, then the number of directors constituting the Board of Directors shall be increased to the extent the approval of the Corporation's stockholders is not required and the Investment Agreement would not be breached and a number of directors (other than Investor Nominees) shall resign from the Board of Directors, so as to enable the Investor and its Affiliates to designate as directors the number of Investor Nominees not elected to the Board of Directors pursuant to the Investment Agreement, and the Investor and its Affiliates shall have, in addition to the other voting rights set forth herein, the exclusive right, voting separately as a single class, to elect a number of directors to the Board of Directors equal to the number of such Investor Nominees not elected to the Board of Directors. Directors elected pursuant to this Section C shall continue as directors and such additional voting right shall continue until such time as the requisite number of Investor Nominees are elected to the Board of Directors pursuant to the Investment Agreement, at which time the directors elected by the Investor and its Affiliates pursuant to this Section C shall cease to be directors (unless elected as

Investor Nominees), and such additional voting rights shall terminate subject to revesting in the event of each and every subsequent event of the character indicated above.

D. (a) The foregoing rights of holders of shares of Series A Preferred Stock to take any action as provided in this Article VII may be exercised at any annual meeting of stockholders or at a special meeting of stockholders held for such purpose as hereinafter provided or at any adjournment thereof, or by the written consent, delivered to the Secretary of the Corporation, of the holders of the minimum number of shares required to take such action. So long as such right to vote continues (and unless such right has been exercised by written consent of the minimum number of shares required to take such action), the Chairman of the Board of Directors may call, and upon the written request of holders of record of 20% of the outstanding shares of Series A Preferred Stock, addressed to the Secretary of the Corporation at the principal office of the Corporation, shall call, a special meeting of the holders of shares entitled to vote as provided herein. Such meeting shall be held as soon as reasonably practicable after delivery of such request to the Secretary, at the place and upon the notice provided by law and in the By-laws for the holding of meetings of stockholders.

(b) Each director elected pursuant to Section C of this Article VII shall serve until the next annual meeting or until his or her successor shall be elected and shall qualify, unless the director's term of office shall have terminated pursuant to the provisions of Section C hereof. In case any vacancy shall occur among the directors elected pursuant to Section C hereof, such vacancy shall be filled for the unexpired portion of the term by vote of the remaining director or directors theretofore elected pursuant to Section C of this Article VII (or such director's or directors' successor in office), if any. If any such vacancy is not so filled within 20 days after the creation thereof or if all of the directors so elected shall cease to serve as directors before their term shall expire, the holders of the shares of Series A Preferred Stock then outstanding and entitled to vote for such director pursuant to the provisions of Section C of this Article VII may elect successors to hold office for the unexpired terms of any vacant directorships, by written consent as provided herein, or at a special meeting of such holders called as provided herein. The holders of a majority of the shares entitled to vote for directors pursuant to Section C of this Article VII shall have the right to remove with or without cause at any time and replace any directors such holders have elected pursuant to such section, by written consent as herein provided, or at a special meeting of such holders called as provided herein.

E. Without the consent or affirmative vote of the holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting separately as a class, the Corporation shall not: (i) authorize, create or issue, or increase the authorized amount of, (a) any Senior Securities or additional Series A Preferred Stock or (b) any class or series of capital stock or any security convertible into or exercisable for any class or series of capital stock, that is redeemable mandatorily or redeemable at the option of the holder thereof at any time on or prior to the redemption of the Series A Preferred Stock (whether or not only upon the occurrence of a specified event); (ii) amend, alter or repeal any provision of the Certificate of Incorporation or the By-laws, if the amendment, alteration or repeal alters or changes the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely; or (iii) authorize or take any other action if such action would be inconsistent with the provisions of this Certificate of Designations.

F. Other Securities. Subject to Section G of Article X, the Corporation shall not, from and after the date of the original issuance of the Series A Preferred Stock, enter into any agreement, amend or modify any existing agreement or obligation, or issue any security that prohibits, conflicts or is inconsistent with, or would be breached by, the Corporation's performance of its obligations hereunder.

### VIII. Conversion

A. Conversion. (a) At the option and election of the holder thereof, each share of Series A Preferred Stock, including all unpaid dividends accumulated thereon to the Conversion Date (as defined below), whether or not such dividends have been declared, may be converted in the manner provided herein at any time into fully paid and nonassessable shares of Common Stock. As of the Conversion Date with respect to a share of Series A Preferred Stock, subject to subsections (d) and (e) of this Section A, such share shall be converted into that number of shares of Common Stock equal to the quotient of (i) the sum of (A) the Stated Value plus (B) all unpaid dividends accumulated on such share of Series A Preferred Stock to the Conversion Date whether or not such dividends have been declared, divided by (ii) the Conversion Price in effect on the Conversion Date.

(b) Conversion of shares of the Series A Preferred Stock may be effected by any holder thereof upon the surrender to the Corporation at the principal office of the Corporation or at the office of any agent or agents of the Corporation, as may be designated by the Board of Directors of the Corporation and identified to the holders in writing upon such designation, of the certificate for such shares of Series A Preferred Stock to be converted accompanied by a written notice stating that such holder elects to convert all or a specified whole number of shares represented by such certificate in accordance with the provisions of this Section A and specifying the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. In case such notice shall specify a name or names other than that of such holder, such notice shall be accompanied by payment of all transfer taxes payable upon the issuance of shares of Common Stock in such name or names. Other than such taxes, the Corporation will pay any and all issue and other taxes (other than taxes based on income) that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of Series A Preferred Stock pursuant hereto. As promptly as practical, and in any event within three Business Days after the Conversion Date, the Corporation shall deliver or cause to be delivered as directed by the holder of shares of Series A Preferred Stock being converted (i) certificates representing the number of validly issued, fully paid and nonassessable full shares of Common Stock to which such holder shall be entitled to, (ii) any cash that is required to be paid pursuant to subsection (d) of this Section A, and (iii) if less than the full number of shares of Series A Preferred Stock evidenced by the surrendered certificate or certificates is being converted, a new certificate or certificates, of like tenor, for the number of shares of Series A Preferred Stock evidenced by such surrendered certificate or certificates less the number of shares of Series A Preferred Stock being converted. Such conversion shall be deemed to have occurred at the close of business on the date (the "Conversion Date") of the giving of such notice by the holder of the Series A Preferred Stock to be converted and of such surrender of the certificate or certificates representing the shares of Series A Preferred Stock to be converted so that as of such time the rights of the holder thereof as to the shares being converted shall cease

except for the right to receive shares of Common Stock and/or cash in accordance herewith, and the person entitled to receive the shares of Common Stock issued as a result of such conversion shall be treated for all purposes as having become the holder of such shares of Common Stock at such time.

(c) In the event that the Series A Preferred Stock is to be redeemed pursuant to Article V, from and after the Mandatory Redemption Date or Change of Control Redemption Date, as applicable, the right of a holder to convert shares of Series A Preferred Stock pursuant to this Section A shall cease and terminate, except if the Corporation shall default in payment of the Mandatory Redemption Price on the Mandatory Redemption Date or the Change of Control Redemption Price on the Change of Control Redemption Date, in which case all such rights shall continue unless and until such shares are redeemed and such price is paid in full in accordance with the terms hereof. Notwithstanding anything in the foregoing to the contrary, if the Conversion Date shall occur with respect to any shares of Series A Preferred Stock on or prior to any Mandatory Redemption Date or Change of Control Redemption Date, such shares of Series A Preferred Stock shall be converted by the Corporation into Common Stock in the manner provided in this Section A.

(d) In connection with the conversion of any shares of Series A Preferred Stock, no fractions of shares of Common Stock shall be issued, but in lieu thereof the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to such fractional interest multiplied by the Closing Price per share of Common Stock on the Conversion Date (or on the Trading Day immediately preceding the Conversion Date, if the Conversion Date is not a Trading Day). If more than one share of Series A Preferred Stock shall be surrendered for conversion by the same holder on the same Conversion Date, the number of full shares of Common Stock issuable on conversion thereof shall be computed on the basis of the total number of shares of Series A Preferred Stock so surrendered.

(e) To the extent the Series A Shareholder Approval is required to be obtained pursuant to applicable rules, interpretations, rulings or determinations of Nasdaq, then notwithstanding anything to the contrary in this Section A, in the event that a Conversion Date with respect to a share of Series A Preferred Stock occurs on a date before which the Series A Shareholder Approval has been obtained, the number of shares of Common Stock into which such share of Series A Preferred Stock shall be converted shall not exceed the quotient of (i) the number of shares of Common Stock that is equal to 19.9% of the number of shares of Common Stock outstanding on the Closing Date (as adjusted for any stock split, reverse stock split, stock dividend or similar event) divided by (ii) 10,000, and upon delivery of such shares of Common Stock in accordance with the terms hereof, the Corporation shall pay in cash to the holder of such share of Series A Preferred Stock the amount, if any, equal to the Closing Price of the Common Stock on the Conversion Date (or, if the Conversion Date is not a Trading Day, the immediately preceding Trading Day) multiplied by the number of shares of Common Stock that would have been received upon conversion pursuant to this Article VIII that is in excess of the actual number of shares of Common Stock received as a result of the operation of this subsection (e).

(f) The Corporation shall at all times reserve and keep available for issuance upon the conversion of the Series A Preferred Stock in accordance with the terms hereof, such

number of its authorized but unissued shares of Common Stock as will from time to time be sufficient to permit the conversion of all outstanding shares of Series A Preferred Stock, and shall take all action required to increase the authorized number of shares of Common Stock if necessary to permit the conversion of all outstanding shares of Series A Preferred Stock.

B. Adjustment of Conversion Price. Except in connection with an Organic Change, which shall be subject to Section C below, the Conversion Price shall be subject to adjustment from time to time as follows:

(a) Stock Dividends. In case the Corporation after the date of the original issuance of the Series A Preferred Stock shall pay a dividend or make a distribution to all holders of shares of Common Stock in shares of Common Stock, then in any such case the Conversion Price in effect at the opening of business on the day following the record date for the determination of stockholders entitled to receive such dividend or distribution shall be reduced to a price obtained by multiplying such Conversion Price by a fraction of which (x) the numerator shall be the number of shares of Common Stock outstanding at the close of business on such record date and (y) the denominator shall be the sum of such number of shares of Common Stock outstanding and the total number of shares of Common Stock constituting such dividend or distribution, such reduction to become effective immediately after the opening of business on the day following such record date. For purposes of this subsection (a), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Corporation will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Corporation.

(b) Stock Splits and Reverse Splits. In case after the date of the original issuance of the Series A Preferred Stock outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and, conversely, in case after the original issuance of the Series A Preferred Stock outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(c) Issuances Below Market. (i) If the Corporation after the date of the original issuance of the Series A Preferred Stock issues Common Stock without consideration or at a price per share (such no consideration or price per share, the "New Price Per Share") less than either (A) the Closing Price of the Common Stock on the Trading Day immediately preceding the date of such issuance of Common Stock or (B) the Conversion Price in effect immediately preceding such issuance of Common Stock, then the Conversion Price shall be adjusted effective immediately following such issuance of Common Stock to a price obtained by multiplying such Conversion Price by a fraction of which (x) the numerator shall be the number of shares of Common Stock outstanding immediately preceding such issuance of Common Stock plus the

number of shares of Common Stock that the aggregate consideration received from such issuance of Common Stock would purchase at (1) if the New Price Per Share is less than both the Closing Price specified in clause (A) and the Conversion Price specified in clause (B), the higher of such prices or (2) if the New Price Per Share is less than either the Closing Price specified in clause (A) or the Conversion Price specified in clause (B) but not both, such price that the New Price Per Share is lower than, and (y) the denominator shall be the number of shares of Common Stock outstanding immediately preceding such issuance of Common Stock plus the number of additional shares of Common Stock so issued; provided, however, that no adjustment shall be made if such Common Stock is issued to holders of Common Stock and the Corporation issues or distributes to each holder of Series A Preferred Stock the Common Stock that each such holder would have been entitled to receive had the Series A Preferred Stock held by such holder been converted prior to such issuance of such Common Stock. For the purposes of this subsection (c)(i), the number of shares of Common Stock at any time outstanding shall not include shares held in treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractional shares of Common Stock.

(ii) If the Corporation after the date of the original issuance of the Series A Preferred Stock issues Derivative Securities entitling Persons to subscribe for or acquire Common Stock, in each case at a New Price Per Share less than either (A) the Closing Price of the Common Stock on the Trading Day immediately preceding the date of such issuance of Derivative Securities or (B) the Conversion Price in effect immediately preceding such issuance of Derivative Securities, then the Conversion Price shall be adjusted effective immediately following such issuance of Derivative Securities to a price obtained by multiplying such Conversion Price by a fraction of which (x) the numerator shall be the number of shares of Common Stock outstanding immediately preceding such issuance of Derivative Securities plus the number of shares of Common Stock that the aggregate consideration received from the exercise, conversion or exchange of such Derivatives Securities would purchase at (1) if the New Price Per Share is less than both the Closing Price specified in clause (A) and the Conversion Price specified in clause (B), the higher of such prices or (2) if the New Price Per Share is less than either the Closing Price specified in clause (A) or the Conversion Price specified in clause (B) but not both, such price that the New Price Per Share is lower than, and (y) the denominator shall be the number of shares of Common Stock outstanding immediately preceding such issuance of Derivative Securities plus the number of additional shares of Common Stock for or into which such Derivative Securities are exercisable, convertible or exchangeable; provided, however, that no adjustment shall be made if such Derivative Securities are issued to holders of Common Stock and the Corporation issues or distributes to each holder of Series A Preferred Stock the Derivative Securities that each such holder would have been entitled to receive had the Series A Preferred Stock held by such holder been converted prior to such issuance of Derivative Securities. For the purposes of this subsection (c)(ii), the number of shares of Common Stock at any time outstanding shall not include shares held in treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractional shares of Common Stock. The Corporation shall not issue any Derivative Securities in respect of shares of Common Stock held in the treasury of the Corporation. Rights or warrants issued by the Corporation to all holders of Common Stock entitling the holders thereof to subscribe for or purchase Equity Securities, which rights or warrants (A) are deemed to be transferred with such shares of Common Stock, (B) are not exercisable and (C) are also issued in respect of future issuances of

Common Stock, including shares of Common Stock issued upon conversion of shares of Series A Preferred Stock, in each case in clauses (A) through (C) until the occurrence of a specified event or events (a “Trigger Event”), shall for purposes of this subsection (c)(ii) not be deemed issued until the occurrence of the earliest Trigger Event.

(iii) If (A) the exercise price provided for in any Derivative Securities referred to in subsection (c)(ii) above, (B) the additional consideration, if any, payable upon the conversion or exchange of any Derivative Securities referred to in subsection (c)(ii) above or (C) the rate at which any such Derivative Securities referred to in subsection (c)(ii) above are convertible into or exchangeable for Common Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution upon an event which results in a related adjustment pursuant to this Article VIII), the Conversion Price then in effect shall forthwith be readjusted (effective only with respect to the conversion of Series A Preferred Stock after such readjustment) to the Conversion and Price that would then be in effect had the adjustment made upon the issuance, sale, distribution or granting of such Derivative Securities been made based upon such changed purchase price, additional consideration or conversion rate, as the case may be, but only with respect to such Derivative Securities as then remain outstanding.

(d) Special Dividends. In case the Corporation after the date of the original issuance of the Series A Preferred Stock shall distribute to all holders of shares of Common Stock evidences of its indebtedness or assets (excluding any regular periodic cash dividend but including any extraordinary cash dividend), Equity Securities (other than Common Stock) or rights to subscribe (excluding those referred to in subsection (c) above) for Equity Securities other than Common Stock, in each such case the Conversion Price in effect immediately prior to the close of business on the record date for the determination of stockholders entitled to receive such distribution shall be adjusted to a price obtained by multiplying such Conversion Price by a fraction of which (x) the numerator shall be the Closing Price per share of Common Stock on such record date, less the then-current fair market value as of such record date (as determined by the Board of Directors in its good faith judgment) of the portion of assets or evidences of indebtedness or Equity Securities or subscription rights so distributed applicable to one share of Common Stock, and (y) the denominator shall be such Closing Price, such adjustment to become effective immediately prior to the opening of business on the day following such record date; provided, however, that no adjustment shall be made (1) if the Corporation issues or distributes to each holder of Series A Preferred Stock the subscription rights referred to above that each such holder would have been entitled to receive had the Series A Preferred Stock held by such holder been converted prior to such record date or (2) if the Corporation grants to each such holder the right to receive, upon the conversion of the Series A Preferred Stock held by such holder at any time after the distribution of the evidences of indebtedness or assets or Equity Securities referred to above, the evidences of indebtedness or assets or Equity Securities that such holder would have been entitled to receive had such Series A Preferred Stock been converted prior to such record date. The Corporation shall provide any holder of Series A Preferred Stock, upon receipt of a written request therefor, with any indenture or other instrument defining the rights of the holders of any indebtedness, assets, subscription rights or Equity Securities referred to in this subsection (d). Rights or warrants issued by the Corporation to all holders of Common Stock entitling the holders thereof to subscribe for or purchase Equity

Securities, which rights or warrants (i) are deemed to be transferred with such shares of Common Stock, (ii) are not exercisable and (iii) are also issued in respect of future issuances of Common Stock, including shares of Common Stock issued upon conversion of shares of Series A Preferred Stock, in each case in clauses (i) through (iii) until the occurrence of a Trigger Event, shall for purposes of this subsection (d) not be deemed issued until the occurrence of the earliest Trigger Event.

(e) Tender or Exchange Offer. In case a tender or exchange offer made by the Corporation or any subsidiary of the Corporation for all or any portion of the Common Stock shall be consummated and such tender offer shall involve an aggregate consideration having a fair market value (as determined by the Board of Directors in its good faith judgment) at the last time (the "Offer Time") tenders may be made pursuant to such tender or exchange offer (as it may be amended) that, together with the aggregate of the cash plus the fair market value (as determined by the Board of Directors in its good faith judgment), as of the Offer Time, of consideration payable in respect of any tender or exchange offer by the Corporation or any such subsidiary for all or any portion of the Common Stock consummated within the 12 months preceding the Offer Time and in respect of which no Conversion Price adjustment pursuant to this subsection (e) has been made, exceeds 5% of the product of the Closing Price of the Common Stock at the Offer Time multiplied by the number of shares of Common Stock outstanding (including any tendered shares) at the Offer Time, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the Offer Time by a fraction of which (x) the numerator shall be (i) the product of the Closing Price of the Common Stock at the Offer Time multiplied by the number of shares of Common Stock outstanding (including any tendered shares) at the Offer Time minus (ii) the fair market value (determined as aforesaid) of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares validly tendered and not withdrawn as of the Offer Time (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the denominator shall be the product of (i) such Closing Price at the Offer Time multiplied by (ii) such number of outstanding shares at the Offer Time minus the number of Purchased Shares, such reduction to become effective immediately prior to the opening of business on the day following the Offer Time. For purposes of this subsection (e), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock.

(f) Closing Price Determination. For the purpose of any computation under subsections (c) and (d) of this Section B, the Closing Price of Common Stock on any date shall be deemed to be the average of the Closing Prices for the five consecutive Trading Days ending on the day in question (or if such day is not a Trading Day, the next preceding Trading Day), provided, however, that (i) if the "ex" date for any event (other than the issuance or distribution requiring such computation) that requires an adjustment to the Conversion Price pursuant to this Section B occurs on or after the 20th Trading Day prior to the day in question and prior to the "ex" date for the issuance or distribution requiring such computation, the Closing Price for each Trading Day prior to the "ex" date for such other event shall be adjusted by multiplying such Closing Price by the same fraction which the Conversion Price is so required to be adjusted as a

result of such other event, (ii) if the “ex” date for any event (other than the issuance or distribution requiring such computation) that requires an adjustment to the Conversion Price pursuant to this Section B occurs on or after the “ex” date for the issuance or distribution requiring such computation and on or prior to the day in question, the Closing Price for each Trading Day on and after the “ex” date for such other event shall be adjusted by multiplying such Closing Price by the reciprocal of the fraction by which the Conversion Price is so required to be adjusted as a result of such other event, and (iii) if the “ex” date for the issuance or distribution requiring such computation is on or prior to the day in question, after taking into account any adjustment required pursuant to clause (ii) of this proviso, the Closing Price for each Trading Day on or after such “ex” date shall be adjusted by adding thereto the fair market value on the day in question (as determined by the Board of Directors in a manner consistent with any determination of such value for the purposes of subsection (d) of this Section B) of the assets, evidences of indebtedness, Equity Securities or subscription rights being distributed applicable to one share of Common Stock as of the close of business on the day before such “ex” date. For the purposes of any computation under subsection (e) of this Section B, the Closing Price on any date shall be deemed to be the average of the daily Closing Prices for the five consecutive Trading Days ending at the Offer Time; provided, however, that if the “ex” date for any event (other than the tender or exchange offer requiring such computation) that requires an adjustment to the Conversion Price pursuant to this Section B occurs on or after the date of commencement of such tender or exchange offer and prior to the Offer Time for such tender or exchange offer, the Closing Price for each Trading Day prior to the “ex” date for such other event shall be adjusted by multiplying such Closing Price by the same fraction by which the Conversion Price is so required to be adjusted as a result of such other event. For purposes of this subsection (f), the term “ex” date, (i) when used with respect to any issuance or distribution, means the first date on which the Common Stock trades regular way on the Nasdaq or on the relevant exchange or in the relevant market from which the Closing Price was obtained without the right to receive such issuance or distribution, (ii) when used with respect to any subdivision or combination of shares of Common Stock, means the first date on which the Common Stock trades regular way on the Nasdaq or such exchange or in such market after the time at which such subdivision or combination becomes effective, and (iii) when used with respect to any tender or exchange offer means the first date on which the Common Stock trades regular way on the Nasdaq or such exchange or in such market after the Offer Time of such tender or exchange offer.

(g) Other Adjustments. The Corporation may, but shall not be required to, make such reductions in the Conversion Price, in addition to those required by clauses (a), (b), (c), (d), (e) and (f) of this Section B, as it considers to be advisable, including without limitation in order to avoid or diminish any income tax to holders of Common Stock or rights to purchase Common Stock resulting from any dividend or distribution of stock, from any event treated as such for income tax purposes, from any subdivision, reclassification or combination of stock, from any issuance of rights or warrants or from any other transaction having an effect similar to any of the above. Whenever the Conversion Price is reduced pursuant to the preceding sentence, the Corporation shall mail to the holders of then-outstanding shares of Series A Preferred Stock a notice of the reduction at least 15 days prior to the date the reduced Conversion Price takes effect, and such notice shall state the reduced Conversion Price and the period it will be in effect.

(h) Minimum Adjustment Requirement. No adjustment shall be required unless such adjustment would result in an increase or decrease of at least \$0.01 in the Conversion Price then subject to adjustment; provided, however, that any adjustments that are not made by reason of this subsection (h) shall be carried forward and taken into account in any subsequent adjustment. In case the Corporation shall at any time issue shares of Common Stock by way of dividend on any stock of the Corporation or subdivide or combine the outstanding shares of Corporation Stock, said amount of \$0.01 specified in the preceding sentence (as therefore increased or decreased, if said amount shall have been adjusted in accordance with the provisions of this subsection (h)) shall forthwith be proportionately increased in the case of such a combination or decreased in the case of such a subdivision or stock dividend so as appropriately to reflect the same.

(i) Minimum Permissible Conversion Price. Notwithstanding any other provision of this Section B, no adjustment to the Conversion Price shall reduce the Conversion Price below \$0.01, and any such purported adjustment shall instead reduce the Conversion Price to \$0.01. The Corporation hereby covenants not to take any action that would or does result in any adjustment in the Conversion Price that, if made without giving effect to the previous sentence, would cause the Conversion Price to be less than \$0.01.

(j) Notice. Whenever the Conversion Price is adjusted as herein provided, a notice stating that the Conversion Price has been adjusted and setting forth the adjusted Conversion Price shall promptly be mailed by the Corporation to the holders of the Series A Preferred Stock.

(k) No Adjustment. Anything to the contrary herein notwithstanding, no adjustment to the Conversion Price shall be made pursuant to this Section B as a result of, or in connection with, the issuance of Common Stock or Derivative Securities (i) to directors, employees or consultants of the Corporation or its Subsidiaries pursuant to an existing or future stock option, stock purchase or other similar plan adopted by the Board of Directors, an employment agreement approved by the Board of Directors, a consulting agreement or arrangement approved by the Board of Directors, or the modification, renewal or extension of any such plan, agreement or arrangement if approved by the Board of Directors; provided, however, that with respect to the issuance of Common Stock and/or Derivative Securities to consultants other than Bain & Company, only the issuance of Common Stock and/or Derivative Securities to such consultants pursuant to such plans, agreements or arrangements in any one calendar year that would otherwise cause an adjustment to the Conversion Price pursuant to this Section B and represents in the aggregate 1% or less of the Corporation's outstanding Common Stock as of the first day of such calendar year shall be covered by this subsection (k) and any such subsequent issuance after such 1% threshold has been exceeded shall not be covered by this subsection (k) and there shall be an adjustment to the Conversion Price as a result of any such subsequent issuance if otherwise required pursuant to this Section B, (ii) as consideration for the acquisition of a business or of assets, in each case, approved by the Board of Directors, (iii) in a firm commitment underwritten public offering in which both (x) the underwriting discount is less than 7% and (y) the offering price per share is greater than the Conversion Price in effect immediately preceding the execution of the underwriting agreement for such offering, (iv) to the Corporation's joint venture partners in exchange for interests in the relevant joint venture if such

exchange is approved by the Board of Directors, or (v) upon exercise, conversion or exchange of any Derivative Securities the issuance of which caused an adjustment hereunder or the issuance of which did not require adjustment hereunder.

C. Organic Change.

(a) Corporation Survives. Upon the consummation of an Organic Change (other than a transaction in which the Corporation is not the surviving entity), lawful provision shall be made as part of the terms of such transaction whereby the terms hereof shall be modified, without payment of any additional consideration by any holder, so as to provide that upon the conversion of shares of Series A Preferred Stock following the consummation of such Organic Change, the holder of Series A Preferred Stock shall have the right to acquire and receive (in lieu of or in addition to the shares of Common Stock acquirable and receivable prior to the Organic Change), without payment of additional consideration therefor, such securities, cash and other property as such holder would have received if such holder had converted such shares of Series A Preferred Stock into Common Stock immediately prior to such Organic Change. Lawful provision also shall be made as part of the terms of the Organic Change so that all other terms hereof shall remain in full force and effect following such an Organic Change. The provisions of this subsection (a) shall similarly apply to successive Organic Changes of the character described in this subsection (a).

(b) Corporation Does Not Survive. The Corporation shall not enter into an Organic Change that is a transaction in which the Corporation is not the surviving entity unless lawful provision shall be made as part of the terms of such transaction whereby the surviving entity shall issue new securities to each holder of Series A Preferred Stock, without payment of any additional consideration by such holder, with terms that provide that upon the conversion of such securities, the holder of such securities shall have the right to acquire and receive (in lieu of or in addition to the shares of Common Stock acquirable and receivable prior to the Organic Change), without payment of additional consideration therefor, such securities, cash and other property (the "New Securities") as such holder would have received if such holder had converted such shares of Series A Preferred Stock into Common Stock immediately prior to such Organic Change. The certificate or articles of incorporation or other constituent document of the surviving entity shall provide for such adjustments which, for events subsequent to the effective date of such certificate or articles of incorporation or other constituent document, shall be equivalent to the adjustments provided for in Section B of this Article VIII. All other terms of such New Securities shall be substantially equivalent to the terms provided herein. The provisions of this subsection (b) shall similarly apply to successive Organic Changes of the character described in of this subsection (b).

D. Certain Events. If any event similar to or of the type contemplated by the provisions of Section B or Section C of this Article VIII, but not expressly provided for by such provisions, occurs, then the Board of Directors of the Corporation, will make an appropriate and equitable adjustment in the Conversion Price so as to protect the rights of the holders of Series A Preferred Stock; provided, however, that no such adjustment will decrease the number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock.

## IX. Additional Definitions

For the purposes of this Certificate of Designations of Series A Preferred Stock, the following terms shall have the meanings indicated:

“Affiliate” has the meaning set forth in Rule 12b-2 under the Exchange Act as in effect on the date of the Investment Agreement. The term “Affiliated” has a correlative meaning.

“Beneficially Own” with respect to any securities means having “beneficial ownership” of such securities (as determined pursuant to Rule 13d-3 under the Exchange Act as in effect on the date of the Investment Agreement, except that a Person shall be deemed to Beneficially Own all such securities that such Person has the right to acquire whether such right is exercisable immediately or after the passage of time). The terms “Beneficial Ownership” and “Beneficial Owner” have correlative meanings.

“Business Day” means any day, other than a Saturday, Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

“By-laws” means the By-laws of the Corporation, as amended from time to time.

“Change of Control” shall be deemed to have occurred if (a) any person or group (within the meaning of Rule 13d-5 under the Exchange Act as in effect on the date of the Investment Agreement) shall own directly or indirectly, beneficially or of record, shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding Equity Securities of the Corporation, other than any TPG Person or any Person or Group that owned at least 5% of such Equity Securities on the Closing Date; (b) a majority of the seats (other than vacant seats) on the board of directors of the Corporation shall at any time be occupied by persons who were neither (i) nominated by the board of directors of the Corporation nor (ii) appointed by directors so nominated; (c) any change in control (or similar event, however denominated) with respect to the Corporation shall occur under and as defined in any indenture or agreement in respect of Indebtedness for borrowed money in excess of the aggregate principal amount of \$10,000,000 to which the Corporation or any Subsidiary thereof is a party; or (d) a “Change in Control” or “Change of Control” (or similar event) shall have occurred under the Credit Agreement or the Indenture, unless, in the case of a “Change of Control” under the Indenture, the aggregate principal amount outstanding under the Senior Subordinated Notes is less than \$10,000,000. Notwithstanding the foregoing, no event described above shall constitute a “Change of Control” if such event resulted directly from any action taken by the Investor or any of its Affiliates.

“Closing” has the meaning set forth in the Investment Agreement.

“Closing Date” has the meaning set forth in the Investment Agreement.

“Closing Price” with respect to a share of Common Stock on any day means, subject to subsection (f) of Section B of Article VIII if applicable, the last reported sale price on

that day or, in case no such reported sale takes place on such day, the average of the last reported bid and asked prices, regular way, on that day, in either case, as reported in the consolidated transaction reporting system with respect to securities quoted on Nasdaq or, if the shares of Common Stock are not quoted on Nasdaq, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if the shares of Common Stock are not quoted on Nasdaq and not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices on such other nationally recognized quotation system then in use, or, if on any such day the shares of Common Stock are not quoted on any such quotation system, the average of the closing bid and asked prices as furnished by a professional market maker selected by the Board of Directors in good faith making a market in the shares of Common Stock. If the shares of Common Stock are not publicly held, or so listed, quoted or publicly traded, the "Closing Price" means the fair market value of a share of Common Stock, as determined in good faith by the Board of Directors.

"Conversion Price" shall mean \$2.82, as adjusted from time to time pursuant to Section B of Article VIII.

"Conversion Shares" has the meaning set forth in the Investment Agreement.

"Credit Agreement" has the meaning set forth in the Investment Agreement.

"Current Market Price" means, in respect of any share of Common Stock as of any date, the average Closing Price for the 30 Trading Days immediately preceding the date in question. In case any event that would require an adjustment to the Conversion Price pursuant to Section B of occurs with an "ex" date or an effective date occurring during the foregoing 30 Trading Day period, the Closing Prices used in determining the Current Market Price shall be appropriately adjusted to take such event into account.

"Derivative Securities" means any subscriptions, options, conversion rights, warrants, or other agreements, securities or commitments of any kind obligating the Company to issue, grant, deliver or sell, or cause to be issued, granted, delivered or sold, Common Stock.

"Equity Securities" of any Person, means any and all common stock, preferred stock and any other class of capital stock of, and any partnership or limited liability company interests in, such Person or any other similar interests of any Person that is not a corporation, partnership or limited liability company.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, from time to time.

"Governmental Entity" means any government or political subdivision or department thereof, any governmental or regulatory body (including without limitation the NASD and the Nasdaq), commission, board, bureau, agency or instrumentality, or any court or arbitrator or alternative dispute resolution body, in each case whether federal, state, local or foreign.

“Group” has the meaning set forth in Rule 13d-5 under the Exchange Act.

“Guarantee” means any direct or indirect obligation, contingent or otherwise, to guarantee (or having the economic effect of guaranteeing) Indebtedness in any manner, including, without limitation, any monetary obligation to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness (whether arising by agreement to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise).

“Indebtedness” means, with respect to any Person, without duplication, (i) all obligations of such Person for money borrowed, (ii) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments, (iii) all obligations of such Person upon which interest charges are customarily paid, (iv) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (v) all obligations of such Person issued or assumed as the deferred purchase price of property or services (excluding (x) trade accounts payable and accrued obligations incurred in the ordinary course of business and (y) deferred earn-out and other performance-based payment obligations incurred in connection with any Permitted Acquisition (as such term is defined in the Credit Agreement as in effect on the date of the Investment Agreement), (vi) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (vii) all Guarantees by such Person of Indebtedness of others, (viii) all capital lease obligations of such Person, (ix) all obligations (determined on the basis of actual, not notional, obligations) of such Person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (x) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances issued in support of obligations that constitute Indebtedness under any other clause of this definition (unless such obligations are fully cash collateralized), provided, however, that all obligations in respect of letters of credit shall be deemed Indebtedness to the extent drawings thereunder are unreimbursed (after any applicable grace period) regardless of the purpose for which such letter of credit was issued. The Indebtedness of any Person shall include the recourse Indebtedness of any partnership in which such Person is a general partner. Notwithstanding the foregoing, no portion of Indebtedness that becomes the subject of a defeasance (whether a legal defeasance or a “covenant” or “in substance” defeasance) shall, at any time that such defeasance remains in effect, be treated as Indebtedness for purposes hereof.

“Indenture” has the meaning set forth in the Investment Agreement.

“Investment Agreement” means the Investment Agreement, dated on or about the date hereof, by and between the Investor and the Corporation, as amended, supplemented or otherwise modified from time to time.

“Investor” has the meaning set forth in the Investment Agreement.

“Investor Group” means, collectively, the Investor and its Affiliates.

“Investor Nominee” means a person designated for election to the Board of Directors by the Investor pursuant to the Investment Agreement.

“Law” means any law, treaty, statute, ordinance, code, rule, regulation, judgment, decree, order, writ, award, injunction or determination of any Governmental Entity.

“Lien” means any mortgage, pledge, lien, security interest, claim, voting agreement, conditional sale agreement, title retention agreement, restriction, option or encumbrance of any kind, character or description whatsoever.

“NASD” means the National Association of Securities Dealers, Inc.

“Nasdaq” means The Nasdaq Stock Market’s National Market.

“Organic Change” means, with respect to any Person, any transaction (including without limitation any recapitalization, capital reorganization or reclassification of any class of capital stock, any consolidation or amalgamation of such Person with, or merger of such Person into, any other Person, any merger of another Person into such Person (other than a merger which does not result in a reclassification, conversion, exchange or cancellation of outstanding shares of capital stock of such Person), any sale or transfer or lease of all or substantially all of the assets of such Person or any compulsory share exchange) pursuant to which any class of capital stock of such Person is converted into the right to receive other securities, cash or other property.

“Other Credit Facilities” means, with respect to the Company, such agreements (other than the Credit Agreement and the Indenture) to which the Company now is, or hereafter becomes, a party, which agreements evidence obligations of the Company that are included within clauses (i) or (ii) of the definition of “Indebtedness”, as the same may be amended, restated, supplemented, extended, renewed or increased from time to time, replaced, substituted, refunded or refinanced or otherwise modified from time to time, in whole or in part, and any successive replacements, substitutions, refundings or refinancings.

“Person” means any individual, corporation, company, association, partnership, limited liability company, joint venture, trust or unincorporated organization, or Governmental Entity.

“Securities Act” means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, from time to time.

“Senior Subordinated Notes” means the Senior Subordinated Notes issued pursuant to the Indenture.

“Series A Shareholder Approval” has the meaning set forth in the Investment Agreement.

“Subsidiary” means as to any Person, any other Person of which more than 50% of the shares of the voting stock or other voting interests are owned or controlled, or the ability to

select or elect more than 50% of the directors or similar managers is held, directly or indirectly, by such first Person or one or more of its Subsidiaries or by such first Person and one or more of its Subsidiaries; provided, however, that no Joint Venture (as such term is defined in the Investment Agreement) shall be considered (i) a "Subsidiary" of the Corporation or (ii) a "Subsidiary" of any Subsidiary of the Corporation.

"TPG Person" means the Investor, and each Person controlled by, controlling or under common control with the Investor.

"Trading Day" means any day on which the Nasdaq is open for trading, or if the shares of Common Stock are not quoted on the Nasdaq any day on which the principal national securities exchange or national quotation system on which the shares of Common Stock are listed, admitted to trading or quoted is open for trading, or if the shares of Common Stock are not so listed, admitted to trading or quoted, any Business Day.

#### X. Miscellaneous

A. Notices. Any notice referred to herein shall be in writing and shall be deemed to have been duly given (and shall be effective when received), if delivered personally, by facsimile or sent by overnight courier or by first class mail, postage prepaid, as follows:

(i) if to the Corporation, to its office at 5005 East McDowell Road, Phoenix, Arizona 85008 (Attention: General Counsel);

(ii) if to a holder of the Series A Preferred Stock, to such holder at the address of such holder as listed in the stock record books of the Corporation (which may include the records of any transfer agent for the Series A Preferred Stock); or

(iii) to such other address as the Corporation or such holder, as the case may be, shall have designated by notice similarly given.

B. Reacquired Shares. Any shares of Series A Preferred Stock redeemed, purchased or otherwise acquired by the Corporation, directly or indirectly, in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof (and shall not be deemed to be outstanding for any purpose) and, if necessary to provide for the lawful redemption or purchase of such shares, the capital represented by such shares shall be reduced in accordance with the Delaware General Corporation Law. All such shares of Series A Preferred Stock shall upon their cancellation and upon the filing of an appropriate certificate with the Secretary of State of the State of Delaware, become authorized but unissued shares of Preferred Stock, \$0.01 par value, of the Corporation and may be reissued as part of another series of Preferred Stock, \$0.01 par value, of the Corporation subject to the conditions or restrictions on issuance set forth herein.

C. Enforcement. Any registered holder of shares of Series A Preferred Stock may proceed to protect and enforce its rights and the rights of such holders by any available remedy by proceeding at law or in equity to protect and enforce any such rights, whether for the

specific enforcement of any provision in this Certificate of Designations or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

D. Transfer Taxes. Except as otherwise agreed upon pursuant to the terms of this Certificate of Designations, the Corporation shall pay any and all documentary, stamp or similar issue or transfer taxes and other governmental charges that may be imposed under the laws of the United States of America or any political subdivision or taxing authority thereof or therein in respect of any issue or delivery of Common Stock on conversion, or other securities or property issued on account of, shares of Series A Preferred Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax or other charge that may be imposed in connection with any transfer involved in the issue or transfer and delivery of any certificate for Common Stock or other securities or property in a name other than that in which the shares of Series A Preferred Stock so converted, or on account of which such securities were issued, were registered and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Corporation the amount of any such tax or has established to the satisfaction of the Corporation that such tax has been paid or is not payable.

E. Transfer Agent. The Corporation may appoint, and from time to time discharge and change, a transfer agent for the Series A Preferred Stock. Upon any such appointment or discharge of a transfer agent, the Corporation shall send notice thereof by first-class mail, postage prepaid, to each holder of record of shares of Series A Preferred Stock.

F. Record Dates. In the event that the Series A Preferred Stock shall be registered under either the Securities Act or the Exchange Act, the Corporation shall establish appropriate record dates with respect to payments and other actions to be made with respect to the Series A Preferred Stock.

G. Subordination to Credit Agreement and Senior Subordinated Notes. Notwithstanding anything to the contrary herein, by accepting a share of Series A Preferred Stock, the holder thereof shall be deemed to have acknowledged and agreed that (a) such holder's right to receive payments in respect of the Series A Preferred Stock is subject and subordinated in right of payment to the payment in full and discharge of all amounts of principal, interest and fees (however denominated) then outstanding under the Credit Agreement, the Senior Subordinated Notes and then existing Other Credit Facilities and (b) until (i) either payment in full of all such amounts (however denominated) under the Credit Agreement, the Senior Subordinated Notes and then existing Other Credit Facilities has been made in cash, or (ii) if earlier than such payment, all necessary waivers and consents have been obtained with respect to the relevant document as contemplated by the proviso to the last sentence of this Section G, no payment, whether directly or indirectly, by exercise of any right of set off or otherwise in respect of the Series A Preferred Stock shall be made by the Corporation, and no deposit in respect of the Series A Preferred Stock shall be made pursuant to the terms hereof. In the event that any payment by, or distribution of the assets of, the Corporation of any kind or character (whether in cash, property or securities, whether directly or indirectly, by exercise of any right of set-off or otherwise and whether as a result of a bankruptcy proceeding with respect to the Corporation or otherwise) shall be received by a holder of Series A Preferred Stock at any

time when such payment is prohibited by this Section G, such payment shall be held in trust for the benefit of, and shall be paid over to, the lenders under the Credit Agreement, the holders of Senior Subordinated Notes and the lenders under Other Credit Facilities, as the case may be, as their interests may appear. The preceding two sentences address the relative rights of holders of Series A Preferred Stock, on the one hand, and the lenders under the Credit Agreement, the holders of Senior Subordinated Notes and the lenders under Other Credit Facilities, as the case may be, on the other hand, and nothing in this Certificate of Designations shall impair, as between the Corporation and the holders of Series A Preferred Stock, the obligation of the Corporation, which is absolute and unconditional, to pay amounts due in respect of the Series A Preferred Stock in accordance with their terms. Without limiting the foregoing, upon a Change of Control, the Corporation shall pay all amounts outstanding under the Credit Agreement, the Indenture and the Other Credit Facilities to the extent necessary, but only if permitted under the relevant document, in order to permit the payment of the Change of Control Price hereunder or, if such payment is not so permitted under any such document, the Corporation shall exercise any right of defeasance it has under such document (provided that all conditions precedent to the exercise of such right of defeasance have been satisfied, which conditions the Corporation shall use its reasonable best efforts to satisfy) to the extent necessary in order to permit the payment of the Change of Control Price hereunder; provided, that the Corporation shall not be required to make such payments or exercise such right of defeasance under the Credit Agreement, the Indenture or an Other Credit Facility if the Corporation has received all necessary waivers and consents from the applicable lenders or holders of notes permitting the Corporation to pay the Change of Control Price hereunder.

IN WITNESS WHEREOF, this Certificate of Designations is executed on behalf of the Corporation by its Chief Financial Officer and attested by its Assistant Secretary, this 6th day of September, 2001.

ON SEMICONDUCTOR CORPORATION

By: /s/ DARIO SACOMANI  
Name: Dario Sacomani  
Title: Chief Financial Officer, Senior Vice President

[Corporate Seal]

ATTEST:

/s/ JUDITH A. BOYLE  
Name: Judith A. Boyle  
Title: Assistant Secretary

**CERTIFICATE OF AMENDMENT  
TO THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF  
ON SEMICONDUCTOR CORPORATION**

ON Semiconductor Corporation (formerly known as SCG Holding Corporation), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), pursuant to Section 242 of the Delaware General Corporation Law, by its Secretary does hereby certify:

1. That, at a regularly noticed meeting of the Board of Directors held on March 20, 2002, the Board of Directors of the Corporation, in accordance with the Bylaws of the Corporation and the provisions of Sections 141 and 242 of the Delaware General Corporation Law, duly adopted a resolution setting forth a proposed amendment to the Amended and Restated Certificate of Incorporation of the Corporation.

**RESOLVED**, that the Board of Directors hereby proposes that Article FOURTH, section (1) of the Amended and Restated Certificate of Incorporation be amended to read as follows:

"The aggregate number of shares which the Corporation shall have authority to issue is 500,100,000, of which 100,000 of said shares shall be par value \$0.01 and shall be designated Preferred Stock, and 500,000,000 of said shares shall be par value \$0.01 per share and shall be designated Common Stock."

2. That, at the same meeting, the Board of Directors of the Corporation, in accordance with the Bylaws of the Corporation and the provisions of Sections 141 and 242 of the Delaware General Corporation Law, duly adopted resolutions declaring the advisability of the foregoing proposed amendment to the Amended and Restated Certificate of Incorporation and directing that such amendment be considered for adoption by the stockholders of the Corporation at the 2002 Annual Meeting of Stockholders.

3. That, in accordance with the provisions of Sections 211 and 242 of the Delaware General Corporation Law, the foregoing proposed amendment to the Amended and Restated Certificate of Incorporation was duly adopted by the stockholders of the Corporation at the 2002 Annual Meeting of Stockholders held on May 23, 2002 by the affirmative vote of (i) at least a majority of the votes entitled to be voted thereon by the holders of the Corporation's Common Stock and Series A Preferred Stock voting together, and (ii) at least a majority of the votes entitled to be voted thereon by the holders of the Corporation's Common Stock voting separately as a class.

**IN WITNESS WHEREOF**, ON Semiconductor Corporation has caused this Certificate of Amendment to the Amended and Restated Certificate of Incorporation to be signed by its Vice President and Secretary and attested by its Assistant Secretary, who declare under penalty of perjury that the matters set forth in the foregoing Certificate of Amendment are true and correct to their knowledge, this 1st day of August, 2002.

**ON SEMICONDUCTOR CORPORATION**

By: /s/ GEORGE H. CAVE

George H. Cave  
Vice President and Secretary

Attest:

By: /s/ JUDITH A. BOYLE

Judith A. Boyle  
Assistant Secretary

---

STATE OF ARIZONA             )  
   )  ss:  
COUNTY OF MARICOPA         )

The foregoing Certificate of Amendment was acknowledged before me this 1st day of August 2002, by George H. Cave, as Vice President and Secretary of ON Semiconductor Corporation, a Delaware corporation, on behalf of the company.

\_\_\_\_\_  
/s/ LINDA M. LEE  
Notary Public

[Notary Seal]

STATE OF ARIZONA             )  
   )  ss:  
COUNTY OF MARICOPA         )

The foregoing Certificate of Amendment was attested to before me this 1st day of August 2002, by Judith A. Boyle, as Assistant Secretary of ON Semiconductor Corporation, a Delaware corporation, on behalf of the company.

\_\_\_\_\_  
/s/ LINDA M. LEE  
Notary Public

[Notary Seal]

**CERTIFICATE OF AMENDMENT  
TO THE  
CERTIFICATE OF DESIGNATIONS OF  
SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK  
OF  
ON SEMICONDUCTOR CORPORATION**

ON Semiconductor Corporation, a corporation duly organized and existing under the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: The Certificate of Designations of Series A Cumulative Convertible Preferred Stock (“Preferred Stock”) of ON Semiconductor Corporation (“Certificate of Designations”) is hereby amended to change the formula for the Mandatory Redemption Price to replace “50% of the Current Market Price . . . .” in Section V.A(ii) with “20% of the Current Market Price . . . .” so that section V.A reads in its entirety as follows:

“A. Mandatory Redemption. The Series A Preferred Stock shall not be redeemable except as provided in this Article V. At any time on or after the eighth anniversary of the original issuance of the Series A Preferred Stock, the Series A Preferred Stock, shall, to the extent that the Corporation shall have funds legally available therefore, be redeemable in whole or in part at the option of the holders of the Series A Preferred Stock at a redemption price per share in cash (the “Mandatory Redemption Price”) equal to the greater of (i) Stated Value plus all unpaid dividends accumulated thereon to the date of actual payment of the Mandatory Redemption Price, whether or not such dividends have been declared and (ii) 20% of the Current Market Price of the Conversion Shares and other assets and property, if any, into which one share of Series A Preferred Stock is then convertible, in each case determined as of the Mandatory Redemption Date.”

SECOND: The foregoing amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, ON Semiconductor Corporation has caused this certificate to be signed by George H. Cave, its Senior Vice President, General Counsel and Secretary on this 15th day of June, 2004.

ON SEMICONDUCTOR CORPORATION

By: /s/ GEORGE H. CAVE

George H. Cave  
Senior Vice President, General Counsel and Secretary

**CERTIFICATE OF ELIMINATION  
OF  
ON SEMICONDUCTOR CORPORATION**

On Semiconductor Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: That in a unanimous written consent of the Board of Directors of the Company ("Board of Directors" or "Board"), resolutions were duly adopted by the Board of Directors setting forth the proposed elimination and retirement of the Series A Cumulative Convertible Preferred Stock as set forth herein;

**NOW THEREFORE BE IT RESOLVED**, that pursuant to the Delaware General Corporation Law Section 151(g), the Board of Directors hereby authorizes the filing of a Certificate of Elimination for the Certificate of Designations with the Secretary of State of the State of Delaware providing that (i) no series or class of preferred stock will be issued under the Certificate of Designations, and (ii) upon the filing of the Certificate of Elimination for the Certificate of Designations such shares of converted Preferred Stock shall become authorized but unissued and may be reissued as part of another series of preferred stock of the Company subject to the conditions or restrictions on issuance set forth by the Board pursuant to the Company's Amended and Restated Certificate of Incorporation and Bylaws.

SECOND: That the Certificate of Designations with respect to the above Series A Cumulative Convertible Preferred Stock was filed in the office of the Secretary of State of Delaware on September 6, 2001 and amended by the filing of a Certificate of Amendment to the Certificate of Designations in the office of the Secretary of State of Delaware on June 15, 2004. None of the authorized shares of the Series A Cumulative Convertible Preferred Stock are outstanding and none will be issued.

THIRD: That in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, the Amended and Restated Certificate of Incorporation is hereby amended to eliminate all reference to the Series A Cumulative Convertible Preferred Stock.

IN WITNESS WHEREOF, the corporation has caused this certificate to be signed by its duly authorized officer, this 17<sup>th</sup> day of February, 2006.

ON SEMICONDUCTOR CORPORATION

By: /s/ JUDITH A. BOYLE

Name: Judith A. Boyle

Title: Assistant Secretary

**CERTIFICATE OF AMENDMENT  
TO THE  
AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF ON SEMICONDUCTOR CORPORATION**

ON Semiconductor Corporation, a corporation organized and existing under and by virtue of the Delaware General Corporation Law, does hereby certify as follows:

1. The name of the corporation is ON Semiconductor Corporation (hereinafter referred to as the "Corporation"). The Corporation filed its original Certificate of Incorporation with the Secretary of State of Delaware on June 18, 1992, and the name of the Corporation at that time was Motorola Energy Systems, Inc.

2. A resolution was duly adopted, pursuant to Section 242 of the Delaware General Corporation Law, setting forth this Certificate of Amendment to the Amended and Restated Certificate of Incorporation and declaring this Certificate of Amendment advisable. A resolution was duly adopted, pursuant to Sections 211, 212, 242 of the Delaware General Corporation Law, setting forth and approving this Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Corporation.

3. Paragraph (1) of Article 4 of the Amended and Restated Certificate of Incorporation be, and hereby is, amended in full as follows:

**"FOURTH:**

(1) The aggregate number of shares which the Corporation shall have authority to issue is 600,100,000 of which 100,000 of said shares shall be par value \$0.01 and shall be designated Preferred Stock, and 600,000,000 of said shares shall be par value \$0.01 per share and shall be designated Common Stock."

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by George H. Cave, its Senior Vice President, General Counsel, Chief Compliance & Ethics Officer and Secretary, this 30<sup>th</sup> day of May 2006.

ON Semiconductor Corporation,  
a Delaware Corporation

By: /s/ GEORGE H. CAVE

George H. Cave  
Senior Vice President, General Counsel, Chief Compliance  
& Ethics Officer and Secretary

**CERTIFICATE OF AMENDMENT  
OF  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
ON SEMICONDUCTOR CORPORATION**

**Pursuant to Section 242 of the General Corporation Law of the State of Delaware**

ON Semiconductor Corporation, a corporation duly organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY as follows:

FIRST: The Amended and Restated Certificate of Incorporation of the Corporation is hereby amended by changing Section (1) of the Article numbered "Fourth" so that, as amended, said Section of said Article shall be and read as follows:

"Fourth: (1) The aggregate number of shares which the Corporation shall have authority to issue is 750,100,000 of which 100,000 of said shares shall be par value \$0.01 and shall be designated Preferred Stock, and 750,000,000 of said shares shall be par value \$0.01 per share and shall be designated Common Stock."

SECOND: The foregoing amendment was duly adopted and approved in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, ON Semiconductor Corporation has caused this Certificate of Amendment to be executed by its duly authorized officer as of this 26th day of March, 2008.

ON SEMICONDUCTOR CORPORATION

By: /s/ GEORGE H. CAVE

George H. Cave

Senior Vice President, General Counsel and Secretary

**Summary of ON Semiconductor Corporation Non-Employee Director Compensation Arrangements  
(as approved by the Board of Directors on February 14, 2008)**

**Retainers and Meeting Fees**

<b>Annual Retainers for Board of Directors (Cash)</b>		
Chairman of the Board	\$ 100,000	(\$25,000/quarter)
All other non-employee Directors	\$ 59,000	(\$14,750/quarter)
<b>Annual Retainers for Board Committees (Cash)</b>		
Audit Committee Chair	\$ 20,000	(\$5,000/quarter)
Audit Committee (non-chair) Members	\$ 10,000	(\$2,500/quarter)
Compensation Committee Chair	\$ 15,000	(\$3,750/quarter)
Compensation Committee (non-chair) Members	\$ 7,500	(\$1,875/quarter)
Corporate Governance and Executive Committee Chair	\$ 8,000	(\$2,000/quarter)
Corporate Governance and Executive Committee (non-chair) Members	\$ 4,000	(\$1,000/quarter)
Nominating Committee Chair	\$ 8,000	(\$2,000/quarter)
Nominating Committee (non-chair) Members	\$ 4,000	(\$1,000/quarter)

Retainer fees are paid in cash in arrears in four quarterly pro rata installments. All changes to retainers and meeting fees are effective January 1, 2008. Directors will not receive separate fees for attending board or committee meetings.

**Equity Compensation**

Subject to ON Semiconductor's 2000 Stock Incentive Plan ("Stock Incentive Plan"), the Board has the discretion to determine the terms (including the amount of compensation) and form of all equity-based awards to Directors.

*Initial Directorship* – Consistent with past practice, when an individual initially becomes a member of the Board he/she will be granted a stock option (or other comparable equity-based compensation) to purchase a certain number of shares of ON Semiconductor's common stock with equal pro rata vesting over a three year period beginning on the first anniversary of the grant date, at an exercise price equal to the fair market value of the stock on the grant date, and subject to the Stock Incentive Plan and a relevant stock option grant agreement. Recently, these grants have been for approximately 20,000 shares of common stock.

*Annual Director's Award* – Each year, non-employee Directors will be awarded an annual equity award in restricted stock (or other comparable equity-based compensation) providing for automatic conversion to shares of ON Semiconductor's common stock upon vesting, with vesting to occur on or about the date of grant. These awards will likely be made under and subject to the Stock Incentive Plan and a relevant award agreement. Each award will be determined annually in an amount allowing total Director compensation to be at or about the mid-point of ON Semiconductor's established peer group, based on a study to be provided by a compensation consultant chosen and hired by the Compensation Committee. The annual equity award will be obtained by subtracting \$76,000 (the cash compensation earned by a "baseline" Director who receives the annual retainer of \$59,000 and also serves on both the Audit and Compensation Committees) from the midpoint total compensation amount determined as described above, and dividing the resulting amount by the closing common stock price of ON Semiconductor on the date of grant. If Director is appointed after the date of the annual grant, the award will be prorated based upon the days of service left in the fiscal year in which the Director's service begins.

**Other Information**

Non-employee Directors are reimbursed for reasonable expenses to attend Board and Committee meetings and to perform other relevant Board duties.

**ON SEMICONDUCTOR CORPORATION**  
**RESTRICTED STOCK AGREEMENT**

*(Form of Agreement for Non-employee Board of Directors)*

ON Semiconductor Corporation, a Delaware Corporation ("Company"), hereby grants to \_\_\_\_\_ ("Grantee"), a Participant in the ON Semiconductor Corporation (formerly known as SCG Holding Corporation) 2000 Stock Incentive Plan ("Plan"), as amended, a Restricted Stock Award ("Award") for shares of the Company's Common Stock ("Stock"). The grant on \_\_\_\_\_, made effective as of \_\_\_\_\_ ("Grant Date").

A. The Board of Directors ("Board") of the Company has adopted the Plan to provide incentives to attract and retain those individuals whose services are considered unusually valuable by providing them an opportunity to have a proprietary interest in the success of the Company.

B. The Board desired to grant Stock to the Grantee subject to him providing continued services through the Grant Date.

C. Company believes that entering into this Restricted Stock Agreement ("Agreement") with the Grantee is consistent with those purposes.

D. Any capitalized term not defined in this Agreement will have the meaning as set forth in the Plan.

NOW, THEREFORE, the Company and Grantee agree as follows:

**AGREEMENT**

**1. GRANT OF RESTRICTED SHARES.** Subject to the provisions of this Agreement including, without limitation, the requirement that the Grantee provide continued services to the Company through the Grant Date, the Company grants to Grantee restricted shares of the Company's common stock ("Stock") in an amount equal to \$\_\_\_\_\_ divided by the closing price of the Company's Stock on the Grant Date ("Restricted Shares"). Subject to the provisions of the Agreement and the Plan, the Company will deliver to the Grantee the number of whole shares of Stock, rounded up or down. This Award is granted pursuant to the Plan and its terms are incorporated by reference.

**2. RIGHTS OF GRANTEE.** Subject to the provisions of this Agreement and the Plan, as of the Grant Date, Grantee shall be a stockholder with respect to all of such Restricted Shares and shall have all of the rights of a stockholder in the Company with respect to the Restricted Shares.

**3. RESTRICTIONS ON RESTRICTED SHARES.** Grantee acknowledges that he has not committed to sell, transfer, pledge, exchange, grant any security interest in, or otherwise disposed of, any Restricted Shares, before the Grant Date.

**A. LAPSE OF RESTRICTIONS.** The restrictions set forth in 3 above lapse as of the close of business on the Grant Date.

**4. DELIVERY OF SHARES.** No shares of Stock shall be delivered under this Agreement until: (i) the Grant Date as provided for in 1 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; and (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.

**5. SECURITIES ACT.** The Company shall not be required to deliver any shares of Stock pursuant to this Agreement 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.

**6. COPY OF PLAN.** By the execution of this Agreement, the Grantee acknowledges receipt of a copy of the Plan.

**7. 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.

**8. CONTINUATION OF SERVICES.** This Agreement shall not be construed to confer upon the Grantee any right to continue providing services to, the Company and shall not limit the right of the Company, in its sole and absolute discretion, to terminate the services of the Grantee at any time.

**9. FEDERAL AND STATE TAXES.** Grantee may incur certain liabilities for Federal, state, or local taxes in connection with the grant of the Restricted Shares hereunder, and the Grantee agrees to be responsible for the payment of any resulting taxes.

**10. AMENDMENT OF AGREEMENT.** This Agreement may only be amended with the written approval of Grantee and the Company.

**11. GOVERNING LAW.** This Agreement shall be governed in all respects, whether as to validity, construction, capacity, performance, or otherwise, by the laws of the State of Delaware, without regard to conflicts-of-laws principles that would require the application of any other law.

**12. SEVERABILITY.** If any provision of this Agreement, or the application of any such provision to any person or circumstance, is held to be unenforceable or invalid by any court

of competent jurisdiction or under any applicable law, the parties hereto shall negotiate an equitable adjustment to the provisions of this Agreement with the view to effecting, to the greatest extent possible, the original purpose and intent of this Agreement, and in any event, the validity and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

**13. ENTIRE AGREEMENT.** This Agreement constitutes the entire, final, and complete agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, promises, understandings, negotiations, representations, and commitments, both written and oral, between the parties hereto with respect to the subject matter hereof. Neither party hereto shall be bound by or liable for any statement, representation, promise, inducement, commitment, or understanding of any kind whatsoever not expressly set forth in this Agreement.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized representative and Grantee has signed this Agreement, in each case as of the \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**ON SEMICONDUCTOR CORPORATION**

By: \_\_\_\_\_

\_\_\_\_\_  
[Name]

Its: \_\_\_\_\_

**GRANTEE:**

\_\_\_\_\_

**AMENDMENT NO. 1 TO  
EMPLOYMENT AGREEMENT**

**WHEREAS**, Semiconductor Components Industries, LLC (“Company”) and Robert Charles “Bob” Mahoney (“Executive”) entered into an Employment Agreement dated as of July 11, 2006 (“Agreement”);

**WHEREAS**, all defined terms used herein shall have the meanings set forth in the Agreement unless specifically defined herein;

**WHEREAS**, as of February 14, 2008 and February 13, 2008 the Board of Directors (“Board”) and Compensation Committee (“Committee”) of ON Semiconductor Corporation, respectively, considered and approved an increase, effective January 1, 2008, of the maximum target bonus percentage for the Executive from 60% to 65% of his Base Salary during the applicable Performance Cycle under a bonus Program established and approved by the Board; and

**WHEREAS**, the Company and the Executive now wish to amend the Agreement to reflect the increase to the maximum target bonus percentage to 65% consistent with the Board’s and Committee’s approvals and make certain related conforming changes to the Agreement.

**NOW, THEREFORE**, for mutual consideration the receipt of which is hereby acknowledged, the Agreement is hereby amended as follows:

1. Effective January 1, 2008, Section 2(b) of the Agreement related to “Compensation” is hereby amended by replacing such section in its entirety with the following:

“(b) In addition to the Base Salary, during the Employment Period, the Executive shall be eligible to participate in the bonus program established and approved by the Board (the “Program”) and, pursuant to the Program, the Executive may earn a bonus (the “Bonus”) on an annual or other performance period basis (a “Performance Cycle”) of up to a maximum target of 65% of Base Salary earned during the applicable Performance Cycle or an additional amount as approved by the Board under the Program and in each case based on certain performance criteria; provided that the Executive is actively employed by the Company on the date the Bonuses are paid under the Program, except as provided in Section 5(a) herein. The Bonus may be paid annually or more frequently depending upon the Performance Cycle, as determined by the Board and pursuant to the Program. The Bonus will be specified by the Board, and the Bonus will be reviewed at least annually by the Board.”

2. This Agreement shall amend only the provisions of the Agreement as set forth herein. Those provisions of the Agreement not expressly amended shall be considered in full force and effect.

**IN WITNESS WHEREOF**, the Executive and the Company have executed this Amendment as of the 29<sup>th</sup> day of April 2008.

**COMPANY:**

**Semiconductor Components Industries, LLC**

By: /s/ COLLEEN MCKEOWN

Name: Colleen McKeown

Title: Senior Vice President, Global Human Resources

**EXECUTIVE:**

**Bob Mahoney, in his individual capacity**

By: /s/ ROBERT CHARLES MAHONEY

Name: Robert Charles "Bob" Mahoney

Title: Executive Vice President, Sales and Marketing

## 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 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 a 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 information; 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: May 6, 2008

/s/ KEITH D. JACKSON

---

**Keith D. Jackson**  
Chief Executive Officer

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald A. 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 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 a 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 information; 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: May 6, 2008

/s/ DONALD A. COLVIN

---

Donald A. Colvin  
Chief Financial Officer

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

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

The Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2008 ("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: May 6, 2008

/s/ KEITH D. JACKSON

---

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

Dated: May 6, 2008

/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.)