SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 2, 2004

☐ **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 an accelerated filer (as defined in Rule 12-b-2 of the Exchange Act). Yes ☒ No ☐

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on May 1, 2004:

Class	Number of Shares
Common Stock; $.01 par value	253,313,254

Table of Contents

INDEX

	Page
Part I	
Financial Information	3
Item 1 Financial Statements	3
Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3 Quantitative and Qualitative Disclosures About Market Risk	47
Item 4 Controls and Procedures	48
Part II	
Other Information	49
Item 1 Legal Proceedings	49
Item 2 Changes in Securities and Use of Proceeds	50
Item 3 Defaults Upon Senior Securities	50
Item 4 Submission of Matters to a Vote of Security Holders	50
Item 5 Other Information	50
Item 6 Exhibits and Reports on Form 8-K	50
Signatures	53
Exhibits	54

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	April 2, 2004	December 31, 2003
Assets		
Cash and cash equivalents	$ 221.4	$ 186.6
Receivables, net	153.4	136.1
Inventories, net	183.8	171.6
Other current assets	32.5	25.7
Deferred income taxes	3.1	2.7
Total current assets	594.2	522.7
Property, plant and equipment, net	497.2	499.1
Deferred income taxes	1.7	1.3
Goodwill	77.3	77.3
Other assets	43.0	61.0
Total assets	$ 1,213.4	$ 1,161.4
Liabilities, Minority Interests, Redeemable Preferred Stock and Stockholders' Deficit		
Accounts payable	$ 126.5	$ 115.7
Accrued expenses	102.7	89.9
Income taxes payable	1.7	1.7
Accrued interest	16.1	25.3
Deferred income on sales to distributors	81.1	66.2
Current portion of long-term debt	15.3	11.4
Total current liabilities	343.4	310.2
Long-term debt	1,125.9	1,291.5
Other long-term liabilities	56.9	58.2
Total liabilities	1,526.2	1,659.9
Commitments and contingencies (See Note 9)	—	—
Minority interests in consolidated subsidiaries	26.4	26.4
Series A cumulative, convertible, redeemable preferred stock ($0.01 par value 100,000 shares authorized, 10,000 shares issued and outstanding; 8% annual dividend rate; redemption value — $163.8 and $131.7	123.9	119.7
Common stock ($0.01 par value, 500,000,000 shares authorized, 253,166,766 and 217,299,893 shares issued and outstanding)	2.5	2.2
Additional paid-in capital	1,118.2	891.3
Accumulated other comprehensive loss	(2.5)	(4.4)
Accumulated deficit	(1,581.3)	(1,533.7)
Total stockholders' deficit	(463.1)	(644.6)
Total liabilities, minority interests, redeemable preferred stock and stockholders' deficit	$ 1,213.4	$ 1,161.4

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS (in millions, except per share data) (unaudited)

	Quarter Ended	
	April 2, 2004	April 4, 2003(1)
Revenues	$ 308.2	$ 269.5
Cost of revenues	212.3	194.7
Gross profit	95.9	74.8
Operating expenses:		
Research and development	23.5	21.1
Selling and marketing	18.4	16.1
General and administrative	17.2	19.6
Amortization of intangible asset	—	3.0
Restructuring, asset impairments and other, net	13.1	—
Total operating expenses	72.2	59.8
Operating income	23.7	15.0
Other income (expenses), net:		
Interest expense	(34.3)	(39.1)
Interest income	0.4	0.7
Realized and unrealized foreign currency gains or losses	(1.7)	1.3
Loss on debt prepayment	(33.0)	(3.5)
Other income (expenses), net	(68.6)	(40.6)
Loss before income taxes, minority interests and cumulative effect of accounting change	(44.9)	(25.6)
Income tax provision	(1.6)	(2.2)
Minority interests	(1.1)	(1.2)
Loss before cumulative effect of accounting change	(47.6)	(29.0)
Cumulative effect of accounting change, net of tax of $0	—	(21.5)
Net loss	(47.6)	(50.5)
Less: Accretion to redemption value of convertible redeemable preferred stock	(1.8)	—
Less: Convertible redeemable preferred stock dividends	(2.4)	(2.2)
Net loss applicable to common stock	$ (51.8)	$ (52.7)
Comprehensive loss:		
Net loss	$ (47.6)	$ (50.5)
Foreign currency translation adjustments	0.7	0.7
Additional minimum pension liability adjustment	—	19.6
Effects of cash flows hedges	1.2	1.4
Comprehensive loss	$ (45.7)	$ (28.8)
Loss per common share:		
Basic:		
Net loss applicable to common stock before cumulative effect of accounting change	$ (0.23)	$ (0.18)
Cumulative effect of accounting change	—	(0.12)
Net loss applicable to common stock	$ (0.23)	$ (0.30)
Diluted:		
Net loss applicable to common stock before cumulative effect of accounting change	$ (0.23)	$ (0.18)
Cumulative effect of accounting change	—	(0.12)
Net loss applicable to common stock	$ (0.23)	$ (0.30)
Weighted average common shares outstanding:		
Basic	229.5	176.4
Diluted	229.5	176.4

(1) Amounts have been revised from those previously reported in the Quarterly Report on Form 10-Q for the quarter ended April 4, 2003 to reflect the consolidation of the Company's majority-owned investment in Leshan-Phoenix Semiconductor Company Limited and the change in methodology for recognizing actuarial gains or losses relating to its defined benefit pension obligations, as described in Note 1.

See accompanying notes to consolidated financial statements.

Table of Contents

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Quarter Ended	
	April 2, 2004	April 4, 2003(1)
Cash flows from operating activities:		
Net loss	$ (47.6)	$ (50.5)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	26.3	36.0
Loss on sale of fixed assets	12.1	0.3
Loss on debt prepayment	33.0	3.5
Amortization of debt issuance costs and debt discount	1.9	2.2
Provision for excess inventories	—	4.0
Cumulative effect of accounting change	—	21.5
Non-cash interest on junior subordinated note payable to Motorola	3.5	3.3
Deferred income taxes	(0.8)	(2.5)
Stock compensation expense	—	0.1
Other	1.2	1.6
Changes in assets and liabilities:		
Receivables	(17.3)	(12.0)
Inventories	(12.2)	(11.0)
Other assets	6.0	7.6
Accounts payable	10.7	33.6
Accrued expenses	11.6	(15.3)
Income taxes payable	—	3.8
Accrued interest	(9.2)	(20.8)
Deferred income on sales to distributors	14.9	(2.6)
Other long-term liabilities	(1.3)	1.8
Net cash provided by operating activities	32.8	4.6
Cash flows from investing activities:		
Purchases of property, plant and equipment	(30.6)	(6.2)
Net cash used in investing activities	(30.6)	(6.2)
Cash flows from financing activities:		
Proceeds from debt issuance, net of discount	—	190.9
Proceeds from issuance of common stock under the employee stock purchase plan	0.5	0.2
Proceeds from stock option exercises and warrants	3.9	—
Proceeds from issuance of common stock, net of issuance costs	228.9	—
Payment of capital lease obligation	(0.6)	—
Payment of debt issuance and amendment costs	(0.3)	(9.3)
Dividend to minority shareholder of consolidated subsidiary	(1.0)	—
Redemption premium on repayment of long-term debt	(21.0)	—
Repayment of long-term debt	(177.9)	(180.9)
Net cash provided by financing activities	32.5	0.9
Effect of exchange rate changes on cash and cash equivalents	0.1	0.3
Net increase (decrease) in cash and cash equivalents	34.8	(0.4)
Cash and cash equivalents, beginning of period	186.6	190.4
Cash and cash equivalents, end of period	$ 221.4	$ 190.0

(1) Amounts have been revised from those previously reported in the Quarterly Report on Form 10-Q for the quarter ended April 4, 2003 to reflect the consolidation of the Company's majority-owned investment in Leshan-Phoenix Semiconductor Company Limited and the change in methodology for recognizing actuarial gains or losses relating to its defined benefit pension obligations, as described in Note 1.

See accompanying notes to consolidated financial statements.

Note 1: Background and Basis of Presentation

The accompanying consolidated financial statements include the accounts of ON Semiconductor Corporation and its wholly-owned and majority-owned subsidiaries (collectively, the "Company"). Investments in companies that represent less than 20% of the related voting stock and over which the Company does not exert significant influence are accounted for on the cost basis. All material intercompany accounts and transactions have been eliminated.

In the second quarter of 2003, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, ("FIN No. 46"). FIN No. 46 requires that certain variable interest entities ("VIE's") be consolidated by the primary beneficiary, as that term is defined in FIN No. 46. The Company determined that its investment in Leshan-Phoenix Semiconductor Company Limited ("Leshan") meets the definition of a VIE and that the Company is the primary beneficiary; therefore, the investment in Leshan should be consolidated under FIN No. 46. The Company had previously accounted for its investment in Leshan using the equity method. While consolidation of the Company's investment in Leshan did not impact the previously reported net income (loss) or stockholders' equity (deficit), financial information for prior periods has been revised for comparative purposes as allowed by FIN No. 46.

During the second quarter of 2003, the Company changed its method of accounting for net unrecognized actuarial gains or losses relating to its defined benefit pension obligations. Previously, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, the Company no longer defers actuarial gains or losses but recognizes such gains and losses during the fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared. The previously reported financial statements for the quarter ended April 4, 2003 have been revised to reflect this change. See "Note 3: Accounting Change" for further discussion.

The accompanying unaudited financial statements as of April 2, 2004 and for the three months ended April 2, 2004 and April 4, 2003, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of December 31, 2003 and for the year then ended included in the Company's annual report on Form 10-K, as amended, for the year ended December 31, 2003.

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 receivables, and deferred tax assets; accruals for customer incentives, warranties, and restructuring charges, inventory writedowns and pension obligations; the fair values of financial instruments (including derivative financial instruments); and future cash flows associated with long-lived assets. Actual results could differ from these estimates. Certain prior period amounts have been revised to conform to the current period presentation. These changes had no impact on previously reported net loss or stockholders' deficit.

Note 2: Liquidity

During the quarter ended April 2, 2004, the Company incurred a net loss of $47.6 million compared to a net loss of $50.5 million for the quarter ended April 4, 2003. The Company's net loss included net charges from restructuring, asset impairments and other, net of $13.1 million for the quarter ended April 2, 2004. The

Company’s net loss for the first quarter of 2004 also included a charge of $33.0 million for loss on debt prepayment. The Company’s net loss for the first quarter of 2003 included a charge of $21.5 million relating to a change in accounting principle described in Note 3 and $3.5 million for loss on debt prepayment. Net cash provided by operating activities was $32.8 million for the quarter ended April 2, 2004, as compared $4.6 million for the quarter ended April 4, 2003.

At April 2, 2004, the Company had $221.4 million in cash and cash equivalents, net working capital of $250.8 million, term and revolving debt of $1,141.2 million in the aggregate and a stockholders’ deficit of $463.1 million. The Company’s long-term debt includes $320.1 million under its senior bank facilities; $124.7 million (net of discount) of its 12% first lien senior secured notes due 2010; $190.4 million (net of discount) of its 13% second lien senior secured notes due 2008; $260.0 million of its 12% senior subordinated notes due 2009; $143.4 million under its 10% junior subordinated note due 2011; $23.0 million under a note payable to a Japanese bank due 2010; $66.8 million under loan facilities with Chinese banks; and $12.8 million under capital lease obligations. The Company was in compliance with all of the covenants contained in its various debt agreements as of April 2, 2004 and expects to remain in compliance over the next twelve months.

In February 2004, the Company completed a public offering of common stock resulting in net proceeds of $226.7 million. The net proceeds were used to redeem $70.0 million principal amount of the Company’s 13% senior secured notes due 2010 and $105.0 million principal amount of the 12% senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes. The remaining proceeds will be used for general corporate purposes.

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

If the Company fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to the Company. Management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund the Company’s operating and capital needs as well as to enable it to maintain compliance with its various debt agreements through April 2, 2005. To the extent that results or events differ from the Company’s financial projections or business plans, its liquidity may be adversely affected.

Note 3: Accounting Change

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

The impact of this change for periods prior to January 1, 2003 was a charge of $21.5 million or $0.12 per share, both before and after income taxes, and has been reflected as the cumulative effect of accounting change in the Company’s consolidated statement of operations and comprehensive loss for the quarter ended April 4, 2003. The effect of the change on the quarter ended April 4, 2003 was to decrease the Company’s net loss before cumulative effect of accounting change by $1.6 million or $0.01 per share, both before and after income taxes

Table of Contents

and to increase the net loss by $19.9 million or $0.11 per share, both before and after income taxes. Absent the accounting change, the $21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

Note 4: Restructuring, Asset Impairments and Other, net

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

	Reserve Balance at December 31, 2003	2004 Charges	2004 Usage	Reserve Balance at April 2, 2004
March 2004				
Cash employee separation charges	$ —	$ 0.3	$ (0.2)	$ 0.1
Loss on sale of fixed assets	—	12.0	(12.0)	—
	—			0.1
December 2003				
Cash employee separation charges	5.2	0.7	(0.5)	5.4
Cash exit costs	0.4	0.1	(0.1)	0.4
	5.6			5.8
September 2003				
Cash employee separation charges	0.5	—	(0.1)	0.4
December 2002				
Cash employee separations charges	3.1	—	(1.3)	1.8
Cash exit costs	0.7	—	—	0.7
	3.8			2.5
June 2002				
Cash exit costs	2.5	—	—	2.5
March 2002				
Cash employee separations charges	0.3	—	(0.1)	0.2
June 2001				
Cash exit costs	0.4	—	—	0.4
	$ 13.1	$ 13.1	$(14.3)	$ 11.9

As of April 2, 2004, the $11.9 million reserve balance was comprised of $7.9 million of employee severance charges and $4.0 million of exit costs which consisted of $2.5 million in contract termination charges and $1.5 million of facility closure and lease termination charges.

March 2004

In March 2004, the Company recorded $13.1 million in restructuring, asset impairment and other, net charges. These charges included $12.0 million of loss on sale of fixed assets, $1.0 million to cover employee separation costs and $0.1 million of exit costs.

At the end of the first quarter of 2004, the Company entered into a five-year agreement with respect to the outsourcing of information technology ("IT") infrastructure, messaging, data center network, help desk and onsite management services. As part of the agreement, the Company sold certain system software modules, licenses and hardware for $3.8 million, which had a net book value of $15.8 million prior to the sale, resulting in a loss on sale of fixed assets of $12.0 million. The Company then leased back such system software modules and associated hardware and leased certain new hardware.

As a result of the new IT outsourcing agreement, the Company plans to reduce its current IT staffing levels. In connection with this reduction, the Company recorded a $0.3 million severance charge related to the

termination of 12 employees in the United States. All terminations and associated severance payments related to these charges are expected to be completed by the fourth quarter of 2004.

The remaining $0.7 million of employee separation costs relates to the previously announced shutdown of the Company's back-end manufacturing lines in Roznov, Czech Republic. This amount represents a portion of the total severance benefits for approximately 460 employees. The Company previously recorded a similar charge of $0.5 million in the fourth quarter of 2003, and management estimates that additional severance charges of approximately $0.9 million related to such shutdown will be recognized ratably throughout the remainder of 2004.

The $0.1 million of exit costs relate to certain exit activities that were completed in connection with previously announced shutdown of manufacturing operations in East Greenwich, Rhode Island.

December 2003

The remaining restructuring reserve of $5.8 million at April 2, 2004 are comprised of $5.4 million and $0.4 million related to separation costs associated with approximately 325 employees and lease termination and other exit costs, respectively, in connection with the East Greenwich shutdown. All terminations and associated severance payments related to this charge are expected to be completed by the second quarter of 2005.

As discussed above, an additional $0.7 million of employee separation costs relate to the shutdown of the Company's back-end manufacturing lines in Roznov, Czech Republic as well as $0.1 million of exit costs for certain activities in connection with the shutdown of the East Greenwich facility.

September 2003

The remaining restructuring reserve of $0.4 million at April 2, 2004 are comprised of separation costs associated with 2 terminated employees. The Company expects to settle its remaining obligations related to this restructuring program by September 2004.

December 2002

The remaining restructuring reserve of $2.5 million at April 2, 2004 are comprised of $1.8 million of separation costs associated with 35 employees and $0.7 million related to lease termination and other exit costs. All terminations and associated severance payments are expected to be completed by June 2004. The Company expects to settle its remaining obligations related to the other exit costs by June 2005.

June 2002

The remaining restructuring reserve of $2.5 million at April 2, 2004 relates to estimated termination charges associated with certain manufacturing equipment purchase and supply agreements. The Company is currently in discussions to settle the remaining obligations.

March 2002

The remaining restructuring reserve of $0.2 million at April 2, 2004 relates to the unpaid separation costs associated with terminated employees. All employees have been terminated under this program and the remaining liability relating to this restructuring program is expected to be paid by December 2004.

June 2001

As of April 2, 2004 the remaining liability relating to this restructuring program was $0.4 million of miscellaneous exit costs which are expected to be paid by May 2004.

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):

	April 2, 2004	December 31, 2003
Receivables, net:		
Accounts receivable	$ 155.7	$ 138.5
Less: Allowance for doubtful accounts	(2.3)	(2.4)
	$ 153.4	$ 136.1
Inventories, net:		
Raw materials	$ 19.0	$ 15.2
Work in process	118.8	111.7
Finished goods	87.7	87.1
Total inventory	225.5	214.0
Less: Inventory reserves	(41.7)	(42.4)
	$ 183.8	$ 171.6
Property, plant and equipment, net:		
Land	$ 16.2	$ 16.1
Buildings	352.6	350.5
Machinery and equipment	1,027.6	1,022.2
Total property, plant and equipment	1,396.4	1,388.8
Less: Accumulated depreciation	(899.2)	(889.7)
	$ 497.2	$ 499.1
Goodwill, net:		
Goodwill	$ 95.7	$ 95.7
Less: Accumulated amortization	(18.4)	(18.4)
	$ 77.3	$ 77.3
Accrued expenses:		
Accrued payroll	$ 38.4	$ 29.6
Sales related reserves	15.5	17.1
Restructuring reserves	11.9	13.1
Other	36.9	30.1
	$ 102.7	$ 89.9
Other comprehensive loss:		
Foreign currency translation adjustments	$ 2.4	$ 1.7
Net unrealized losses and adjustments related to cash flow hedges	(4.1)	(5.3)
Unrealized losses on deferred compensation plan investments	(0.8)	(0.8)
	$ (2.5)	$ (4.4)

The activity related to the Company's warranty reserves for the quarter ended April 2, 2004 is as follows (in millions):

Balance as of December 31, 2003	$ 1.6
Provision	0.3
Usage	(0.2)
Reserve released	(0.2)
Balance as of April 2, 2004	$ 1.5

Table of Contents

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 April 4, 2003 is as follows (in millions):

Balance as of December 31, 2002	$ 2.7
Usage	(0.3)
Balance as of April 4, 2003	$ 2.4

The Company maintains defined benefit plans for some of its domestic and foreign subsidiaries. The Company recognizes a minimum liability in its financial statements for its underfunded pension plans. As of April 2, 2004 and December 31, 2003, the total accrued pension liability was $39.4 million and $40.2 million, respectively. The components of our net periodic pension expense for the three months ended April 2, 2004 and April 4, 2003 are as follows (in millions):

	Quarter Ended April 2, 2004			Quarter Ended April 4, 2003		
	U.S. Pension Plan	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Service cost	0.6	0.3	0.9	0.4	0.3	0.8
Interest cost	0.6	0.2	0.8	0.6	0.2	0.8
Expected return on plan assets	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)
Amortization of prior service cost	—	0.1	0.1	0.0	0.1	0.1
Cumulative effect of accounting change	—	—	—	20.0	1.5	21.5
Total net periodic pension cost	1.1	0.5	1.6	20.9	2.0	23.0

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

Note 6: Long-Term Debt

Long-term debt at April 2, 2004 and December 31, 2003 consists of the following (dollars in millions):

	April 2, 2004		December 31, 2003	
	Interest Rate	Balance	Interest Rate	Balance
Senior Bank Facilities:				
Tranche E	4.3750%	$ 320.1	4.4375%	$ 320.1
First-Lien Senior Secured Notes due 2010, 12% interest payable semi-annually, net of debt discount of $5.3 and $8.4		124.7		191.6
Second-Lien Senior Secured Notes due 2008, 13% interest effective February 2003 payable semi-annually, net of debt discount of $4.6 and $7.4		190.4		292.6
12% Senior Subordinated Notes due 2009, interest payable semi-annually		260.0		260.0
10% Junior Subordinated Note due 2011, interest compounded semi-annually, payable at maturity		143.4		139.9
2.3% Note payable to Japanese bank due 2010, interest payable semi-annually		23.0		24.3
Loan with a Chinese bank due 2006, interest payable quarterly at 3.1% and 3.5%, respectively		20.0		20.0
Loan with a Chinese bank, interest payable quarterly at 2.7%		46.8		48.0
Capital lease obligations		12.8		6.4
		1,141.2		1,302.9
Less: Current maturities		(15.3)		(11.4)
		$1,125.9		$1,291.5

As discussed in “Note 8: Common Stock”, during the first quarter of 2004 the Company incurred $21.0 million of costs resulting from the redemption premium upon repayment of $70.0 million and $105.0 million outstanding principal of the first lien and second lien senior secured notes, respectively, and also wrote off $12.0 million of debt issuance costs due to the repayment.

April 2004 Offer to Repurchase Senior Subordinated Notes and Issuance of Zero Coupon Convertible Senior Subordinated Notes

On April 6, 2004, the Company commenced a cash tender offer for all of its outstanding 12% Senior Subordinated Notes due 2009. The total consideration offered for each $1,000 dollars of principal amount of notes tendered was $1,089.06, plus accrued interest, if any, to the repurchase date. The Company anticipates redeeming any remaining outstanding senior subordinated notes after the cash tender offer on or about August 1, 2004 at 106% of par value. In order to finance the cash tender offer, the Company issued $260.0 million of Zero Coupon Convertible Senior Subordinated Notes due 2024. The notes do not bear cash interest, nor does the principal amount accrete. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by certain existing and future subsidiaries of the Company.

Holders may convert the notes into shares of the Company’s common stock at a conversion rate of 101.8849 shares per $1,000 principal amount of notes before April 15, 2024 under the following circumstances: (1) during any fiscal quarter commencing after June 30, 2004 through maturity if the closing sale price of the Company’s

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading-day period ending on the last trading day of the preceding fiscal quarter; (2) during the five business-day period after any five consecutive trading-day period in which the trading price per $1,000 principal amount of notes for each day of that period was less than 98% of the product of the closing sale price of the Company's common stock and the conversion rate; (3) if the notes have been called for redemption; (4) after the date, if ever, on which either Moody's Investors Service, Inc. or Standard & Poor's Rating Services assigns an initial credit rating to the notes, during any period in which the credit rating assigned to the notes by either Moody's or S&P is three or more rating subcategories below the initial credit rating assigned by Moody's or S&P, as the case may be, or any period in which the notes are no longer rated by either Moody's or S&P, as the case may be, if such ratings agency had previously rated the notes; or (5) upon the occurrence of certain corporate events. Beginning April 15, 2010, we may redeem any of the notes at specified redemption prices. Holders may require us to repurchase the notes for cash on April 15 of 2010, 2014 and 2019. Upon the occurrence of certain corporate events, each holder may require the Company to purchase all or a portion of such holder's notes for cash at a price equal to the principal amount of such notes. The notes are subordinated in right of payment to all of our senior indebtedness.

The Company received net proceeds of approximately $251.2 million from the sale of the notes (and would receive approximately $280.3 million if the initial purchasers' right to purchase up to an additional $30.0 million principal amount of note is exercised in full), after deducting discounts and commissions and estimated offering expenses.

April 2004 Amendment to Senior Bank Facilities and Loan Repricing

On April 22, 2004 the Company refinanced $320.5 million of loans under its senior bank facilities. The Company replaced its tranche E term loan facility with a new tranche F term loan facility, which bears interest at a rate that is 0.50% per annum lower than the rate borne by the tranche E term loan facility. Principal repayments of the new tranche F term loan facility will be due throughout 2008 and 2009, provided that, if the Company has not redeemed or repurchased its second lien senior secured notes in full prior to November 14, 2007, the tranche F term loan facility will mature on November 15, 2007. Additionally, in connection with this repricing, the senior bank facilities were amended to, among other things:

- permit the Company to use for general corporate purposes up to $30 million of the proceeds from the sale of the East Greenwich manufacturing facility;
- subject to certain restrictions, permit the Company to apply the net proceeds of certain equity or debt issuances to be used to purchase, redeem or retire any of the first lien senior secured notes, second lien senior secured notes or junior subordinated note;
- amend the definition of consolidated EBITDA in the credit agreement relating to the senior credit facilities to permit the add back of premiums associated with the redemption, repayment or repurchase of securities; and
- replace the existing revolving credit facility with a new facility that bears interest at a rate that is 0.50% per annum lower than the rate borne by the existing revolving facility.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

Annual maturities relating to the Company's long-term debt as of April 2, 2004 are as follows (in millions):

Remainder of 2004	$ 11.1
2005	13.0
2006	154.0
2007	226.0
2008	195.4
Thereafter	541.7
	$1,141.2

The Company and SCI LLC, its primary operating subsidiary, are co-issuers of the first lien senior secured notes (issued in March 2003), the second lien senior secured notes, and the senior subordinated notes (collectively, "the Notes"). The Company's other domestic subsidiaries (collectively, the "Guarantor Subsidiaries") fully and unconditionally guarantee on a joint and several basis, the Issuers' obligations under the Notes. The Guarantor Subsidiaries include Semiconductor Components Industries of Rhode Island, Inc, an operating subsidiary, as well as holding companies whose net assets consist primarily of investments in the Company's Czech subsidiary, its joint venture in Leshan, China and nominal equity interests in certain of the Company's other foreign subsidiaries. The Company's remaining subsidiaries (collectively, the "Non-Guarantor Subsidiaries") are not guarantors of the Notes. Prior to the fourth quarter of 2003, the Guarantor Subsidiaries also owned an investment in the Company's Czech subsidiaries which was subsequently sold to a Non-Guarantor Subsidiary. Because this transaction was a transfer between entities under common control, the Company has accounted for this transaction in a manner similar to a pooling of interests and has restated all historical Guarantor and Non-Guarantor Subsidiary financial information to reflect the current ownership structure.

Table of Contents

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

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

	Issuers					
	ON Semiconductor Corporation (2)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of April 2, 2004						
Cash and cash equivalents	$ —	$ 135.6	$ —	$ 85.8	$ —	$ 221.4
Receivables, net	—	42.7	0.2	110.5	—	153.4
Inventories, net	—	24.9	3.3	188.9	(33.3)	183.8
Other current assets	—	7.1	0.2	28.3	—	35.6
Total current assets	—	210.3	3.7	413.5	(33.3)	594.2
Deferred income tax, non current	—	—	—	1.7	—	1.7
Property, plant and equipment, net	—	98.7	16.1	382.4	—	497.2
Goodwill	—	8.1	69.2	—	—	77.3
Investments and other assets	(778.5)	326.4	39.9	37.9	417.3	43.0
Total assets	$ (778.5)	$ 643.5	$ 128.9	$ 835.5	$ 384.0	$ 1,213.4
Accounts payable	$ —	$ 39.7	$ 2.1	$ 84.7	$ —	$ 126.5
Accrued expenses and other current liabilities	—	83.3	7.2	43.6	1.7	135.8
Deferred income on sales to distributors	—	20.8	—	60.3	—	81.1
Total current liabilities	—	143.8	9.3	188.6	1.7	343.4
Long-term debt (1)	575.1	1,044.4	—	81.5	(575.1)	1,125.9
Other long-term liabilities	—	42.1	—	14.8	—	56.9
Intercompany (1)	(1,014.4)	(207.9)	147.6	294.1	780.6	—
Total liabilities	(439.3)	1,022.4	156.9	579.0	207.2	1,526.2
Minority interests in consolidated subsidiaries	—	—	—	—	26.4	26.4
Redeemable preferred stock	123.9	—	—	—	—	123.9
Stockholders’ equity (deficit)	(463.1)	(378.9)	(28.0)	256.5	150.4	(463.1)
Liabilities, minority interests and stockholders’ equity (deficit)	$ (778.5)	$ 643.5	$ 128.9	$ 835.5	$ 384.0	$ 1,213.4

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Issuers					
	ON Semiconductor Corporation (2)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of December 31, 2003						
Cash and cash equivalents	$ —	$ 118.9	$ —	$ 67.7	$ —	$ 186.6
Receivables, net	—	31.5	—	104.6	—	136.1
Inventories, net	—	21.1	2.2	184.3	(36.0)	171.6
Other current assets	—	3.8	0.1	24.5	—	28.4
Total current assets	—	175.3	2.3	381.1	(36.0)	522.7
Deferred income tax, non current	—	—	—	1.3	—	1.3
Property, plant and equipment, net	—	94.3	15.9	388.9	—	499.1
Goodwill	—	8.1	69.2	—	—	77.3
Investments and other assets	(732.8)	91.7	40.5	39.2	622.4	61.0
Total assets	$ (732.8)	$ 369.4	$ 127.9	$ 810.5	$ 586.4	$ 1,161.4
Accounts payable	$ —	$ 29.8	$ 1.8	$ 84.1	$ —	$ 115.7
Accrued expenses and other current liabilities	—	86.2	5.2	37.2	(0.3)	128.3
Deferred income on sales to distributors	—	19.2	—	47.0	—	66.2
Total current liabilities	—	135.2	7.0	168.3	(0.3)	310.2
Long-term debt (1)	$ 743.2	$ 1,207.1	$ —	$ 84.4	$ (743.2)	$ 1,291.5
Other long-term liabilities	—	41.1	—	15.1	2.0	58.2
Intercompany (1)	(951.1)	(448.9)	143.2	308.1	948.7	—
Total liabilities	(207.9)	934.5	150.2	575.9	207.2	1,659.9
Minority interests in consolidated subsidiaries	—	—	—	—	26.4	26.4
Redeemable preferred stock	119.7	—	—	—	—	119.7
Stockholders' equity (deficit)	(644.6)	(565.1)	(22.3)	234.6	352.8	(644.6)
Liabilities, minority interests and stockholders' equity (deficit)	$ (732.8)	$ 369.4	$ 127.9	$ 810.5	$ 586.4	$ 1,161.4

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Issuers					
	ON Semiconductor Corporation (2)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the quarter ended April 2, 2004						
Revenues	$ —	$ 139.1	$ 8.0	$ 458.7	$ (297.6)	$ 308.2
Cost of revenues	—	120.0	11.5	381.2	(300.4)	212.3
Gross profit	—	19.1	(3.5)	77.5	2.8	95.9
Research and development	—	4.9	4.1	14.5	—	23.5
Selling and marketing	—	10.5	0.2	7.7	—	18.4
General and administrative	—	1.5	0.1	15.6	—	17.2
Restructuring, asset impairments and other, net	—	12.3	0.1	0.7	—	13.1
Total operating expenses	—	29.2	4.5	38.5	—	72.2
Operating income (loss)	—	(10.1)	(8.0)	39.0	2.8	23.7
Interest expense, net	—	(21.4)	(4.8)	(7.7)	—	(33.9)
Loss on debt prepayment	—	(33.0)	—	—	—	(33.0)
Realized and unrealized foreign currency gains or losses	—	(4.0)	—	2.3	—	(1.7)
Equity in earnings	(47.6)	19.2	1.0	—	27.4	—
Income (loss) before income taxes, minority interests and cumulative effect of accounting change	(47.6)	(49.3)	(11.8)	33.6	30.2	(44.9)
Income tax provision	—	0.9	—	(2.5)	—	(1.6)
Minority interests	—	—	—	—	(1.1)	(1.1)
Net income (loss)	$ (47.6)	$ (48.4)	$ (11.8)	$ 31.1	$ 29.1	$ (47.6)
Net cash provided by (used in) operating activities	$ —	$ (14.2)	$ 1.3	$ 45.7	$ —	$ 32.8
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(20.2)	(1.3)	(9.1)	—	(30.6)
Net cash used in investing activities	—	(20.2)	(1.3)	(9.1)	—	(30.6)
Cash flows from financing activities:						
Intercompany loans	—	(114.4)	—	114.4	—	—
Intercompany loan repayments	—	127.7	—	(127.7)	—	—
Proceeds from debt issuance, net of discount	—	—	—	—	—	—
Payment of debt issuance costs	—	(0.3)	—	—	—	(0.3)
Payment of capital lease obligation	—	(0.5)	—	(0.1)	—	(0.6)
Repayment of long term debt	—	(175.0)	—	(2.9)	—	(177.9)
Dividends to minority shareholder of consolidated subsidiary	—	—	—	(1.0)	—	(1.0)
Redemption premium on repayment of long-term debt	—	(21.0)	—	—	—	(21.0)
Proceeds from issuance of common stock	—	228.9	—	—	—	228.9
Equity injections from Parent	—	1.3	—	—	—	1.3
Subsidiary declared dividend	—	—	—	(1.3)	—	(1.3)
Proceeds from issuance of common stock under the employee stock purchase plan	—	0.5	—	—	—	0.5
Proceeds from stock option exercise	—	3.9	—	—	—	3.9
Net cash provided by (used in) financing activities	—	51.1	—	(18.6)	—	32.5
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.1	—	0.1
Net increase in cash and cash equivalents	—	16.7	0.0	18.1	—	34.8
Cash and cash equivalents, beginning of period	—	118.9	—	67.7	—	186.6
Cash and cash equivalents, end of period	$ —	$ 135.6	$ 0.0	$ 85.8	$ —	$ 221.4

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

	Issuers					
	ON Semiconductor Corporation (2)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total (3)
For the quarter ended April 4, 2003						
Revenues	$ —	$ 136.5	$ 15.5	$ 351.2	$ (233.7)	$ 269.5
Cost of sales	—	120.6	11.2	292.8	(229.9)	194.7
Gross profit	—	15.9	4.3	58.4	(3.8)	74.8
Research and development	—	9.0	3.5	8.6	—	21.1
Selling and marketing	—	8.9	0.1	7.1	—	16.1
General and administrative	—	9.1	—	10.5	—	19.6
Amortization of goodwill and other intangibles	—	—	3.0	—	—	3.0
Total operating expenses	—	27.0	6.6	26.2	—	59.8
Operating income (loss)	—	(11.1)	(2.3)	32.2	(3.8)	15.0
Interest expense	—	(24.8)	(4.9)	(8.7)	—	(38.4)
Loss on debt prepayment	—	(3.5)	—	—	—	(3.5)
Realized and unrealized foreign currency gains or losses	—	(0.4)	—	1.7	—	1.3
Equity in earnings	(50.5)	8.7	1.4	—	40.4	—
Income (loss) before income taxes, minority interests and cumulative effect of accounting change	(50.5)	(31.1)	(5.8)	25.2	36.6	(25.6)
Income tax provision	—	(0.9)	—	(1.3)	—	(2.2)
Minority interests	—	—	—	—	(1.2)	(1.2)
Income (loss) before cumulative effect of accounting change	(50.5)	(32.0)	(5.8)	23.9	35.4	(29.0)
Cumulative effect of accounting change	—	(20.0)	—	(1.5)	—	(21.5)
Net income (loss)	$ (50.5)	$ (52.0)	$ (5.8)	$ 22.4	$ 35.4	$ (50.5)
Net cash provided by (used in) operating activities	$ —	$ (0.8)	$ 0.9	$ 4.5	$ —	$ 4.6
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(0.4)	(0.9)	(4.9)	—	(6.2)
Net cash used in investing activities	—	(0.4)	(0.9)	(4.9)	—	(6.2)
Cash flows from financing activities:						
Intercompany loans	—	(83.0)	—	83.0	—	—
Intercompany loan repayments	—	87.2	—	(87.2)	—	—
Proceeds from debt issuance, net of discount	—	190.9	—	—	—	190.9
Payment of debt issuance costs	—	(9.3)	—	—	—	(9.3)
Repayment of long term debt	—	(180.9)	—	—	—	(180.9)
Proceeds from issuance of common stock under the employee stock purchase plan	—	0.2	—	—	—	0.2
Net cash provided by (used in) financing activities	—	5.1	—	(4.2)	—	0.9
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.3	—	0.3
Net increase in cash and cash equivalents	—	3.9	(0.0)	(4.3)	—	(0.4)
Cash and cash equivalents, beginning of period	—	121.5	—	68.9	—	190.4
Cash and cash equivalents, end of period	$ —	$ 125.4	$ (0.0)	$ 64.6	$ —	$ 190.0

(1) For purposes of this presentation, the Senior Subordinated Notes, Second-Lien Notes, and First-Lien Notes have been reflected in the condensed balance sheets of both the Company and SCI LLC with the appropriate offset reflected in the eliminations column. Interest expense and debt discount amortization has been allocated to SCI LLC only.

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

(3) Amounts have been revised from those previously reported to reflect the consolidation of the Company's majority-owned investment in Leshan-Phoenix Semiconductor Company Limited and the change in methodology for recognizing actuarial gains or losses relating to its defined benefit pension obligations both described in Note 1.

Note 7: Redeemable Preferred Stock

On September 7, 2001, the Company issued 10,000 shares of its preferred stock ("the preferred stock") with a stated value of $100.0 million to an affiliate of TPG. Net proceeds from the sale after deducting issuance costs were approximately $99.2 million. As of the issuance date, the preferred stock was convertible into 35,460,993 shares of the Company's common stock at a price of $2.82 per share (subject to specified anti-dilution provisions) and is redeemable at the holder's option any time after September 7, 2009. The preferred stock has a cumulative dividend payable quarterly in cash, at the rate of 8.0% per annum (or, if greater during the relevant quarterly period, in an amount equal to the value of the dividends that would be paid on the common stock then issuable upon conversion of the preferred stock), compounded to the extent not paid, and subject to restrictions under the Company's senior bank facilities, the 12% Senior Subordinated Notes due in 2009 and other documents relating to the Company's indebtedness.

The per share price of the Company's common stock on the date of issuance was $3.19, which was $0.37 higher than the conversion price of $2.82, resulting in a beneficial conversion feature ("BCF") of approximately $13.1 million. The BCF was originally recorded as a discount against the preferred shares with an offsetting increase to additional paid-in capital. However, since the preferred shares were convertible immediately and have no stated redemption date, the discount was accreted in full on the date of issuance effectively eliminating the originally recorded discount. The net loss applicable to common shareholders in 2001 was increased by the $13.1 million accretion for purposes of calculating earnings per share.

At any time after September 7, 2009, the holders may require that the Company redeem their shares at a redemption price equal to the greater of (i) the stated value of the preferred stock plus all accrued and unpaid dividends thereon or (ii) 50% of the then current market price of the common stock (based upon the average closing price of the common stock over the preceding 30 trading days) and other assets and property, if any, into which one share of preferred stock is then convertible. Upon a change of control, the holders of the preferred stock may "put" their shares to the Company at 101% of the stated value plus accumulated and unpaid dividends. The holders of the preferred stock were also granted registration rights in respect of the common stock underlying the preferred stock.

The Company is required to accrete the value of the preferred stock to its redemption value and records such accretion over the remaining period until the earliest available redemption date of September 7, 2009. Such accretion, which is influenced by changes in the market price of the Company's common stock, reduces net income applicable to common stock. Based on the market prices of the Company's common stock, the Company

recorded an accretion charge of $1.8 million for the three months ended April 2, 2004. Based on the average closing price of the Company's common stock over the last 30 trading days preceding April 2, 2004 of $7.96, the redemption value of the Preferred Stock would have been $163.8 million.

The holder's right to require the Company to redeem the preferred stock is subject to, and expressly conditioned upon, limitations under the Company's various debt agreements. The holders of the preferred stock are entitled to vote with the holders of the Company's common stock as a single class. As of the issuance date, each share of preferred stock was entitled to approximately 3,135 votes, subject to certain adjustments for accumulated dividends and those made in accordance with anti-dilution provisions contained in the underlying agreements.

Note 8: Common Stock

On February 9, 2004, the Company and its principal stockholder, Texas Pacific Group, completed a public offering (the "February 2004 Equity Offering") of common stock registered pursuant to a shelf registration statement originally filed with the Securities and Exchange Commission on January 2, 2004. In connection with this offering, the Company issued approximately 34.4 million shares (including approximately 0.4 million shares issued in connection with the underwriters' exercise of their option to cover over-allotments) at a price of $6.98 per share. The net proceeds from this offering received by the Company were $226.7 million after deducting the underwriting discount of $10.8 million ($0.3141 per share) and estimated offering expenses of $2.4 million, of which $2.2 million remained unpaid as of April 2, 2004. The Company did not receive any of the proceeds from the sale of shares by the selling stockholder. The Company used the net proceeds to redeem $70.0 million outstanding principal amount of the first lien senior secured notes and $105.0 million outstanding principal amount of the second lien senior secured notes, in each case on March 10, 2004 at a redemption price of 112.0% of the principal amount of the notes to be redeemed, together with accrued interest to the redemption date. The Company used the remaining net proceeds for general corporate purposes.

In connection with this redemption, the Company wrote off $12.0 million of debt issuance costs, and incurred $21.0 million of redemption premiums. In connection with the February 2004 Equity Offering, the Company obtained an amendment and waiver under the credit agreement relating to its senior bank facilities that permitted the redemption, waived the requirement that 50% of the net proceeds of the offering be used to prepay loans under the senior bank facilities and amended the credit agreement to permit sale and leaseback transactions involving real or personal property with an aggregate fair value of up to $15.0 million (and to permit the asset sales in connection therewith) and to provide that net proceeds from asset sales in connection with such transactions would not be required to be used to prepay loans under the senior bank facilities.

Table of Contents

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

Loss per share calculations for the quarters ended April 2, 2004 and April 4, 2003 are as follows (in millions, except per share data):

	Quarter Ended	
	April 2, 2004	April 4, 2003
Net loss before cumulative effect of accounting change	$ (47.6)	$ (29.0)
Less: Accretion to redemption value of convertible redeemable preferred stock	(1.8)	—
Less: Convertible redeemable preferred stock dividends	(2.4)	(2.2)
Net loss applicable to common stock before cumulative effect of accounting change	(51.8)	(31.2)
Cumulative effect of accounting change	—	(21.5)
Net loss applicable to common stock	$ (51.8)	$ (52.7)
Basic weighted average common shares outstanding	229.5	176.4
Add: Incremental shares for :		
Dilutive effect of stock options	—	—
Convertible redeemable preferred stock	—	—
Diluted weighted average common shares outstanding	229.5	176.4
Loss per common share		
Basic:		
Net loss applicable to common stock before cumulative effect of accounting change	$ (0.23)	$ (0.18)
Cumulative effect of accounting change	—	(0.12)
Net loss applicable to common stock	$ (0.23)	$ (0.30)
Diluted:		
Net loss applicable to common stock before cumulative effect of accounting change	$ (0.23)	$ (0.18)
Cumulative effect of accounting change	—	(0.12)
Net loss applicable to common stock	$ (0.23)	$ (0.30)

Basic loss per share is computed by dividing net loss adjusted for the accretion to redemption value and dividends related to the Company’s redeemable preferred stock by the weighted average number of common shares outstanding during the period. Diluted loss per share generally assumes the conversion of the convertible redeemable preferred stock into common stock if dilutive and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options. The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. For the first quarter of 2004 and the first quarter 2003, the effect of stock option shares were not included as the related impact would have been anti-dilutive as the Company generated a net loss in those periods. Had the Company generated net income in the first quarter of 2004 and the first quarter of 2003, the assumed exercise of stock options would have resulted in an additional 12.6 million and 0.4 million shares of diluted weighted average common shares outstanding in the first quarter of 2004 and the first quarter 2003, respectively. This computation excludes an additional 2.4 million and 21.0 million of options outstanding at April 2, 2004 and April 4, 2003, as their exercise price exceeds the average fair market value during these periods. For the first quarter of 2004 and the first quarter of 2003, the assumed conversion of 43.4 million and 40.1 million shares, respectively, of the redeemable preferred stock was also excluded in determining diluted earnings per share as the related impact would have been anti-dilutive.

The Company accounts for employee stock options related to its common stock in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations (“APB 25”) and provides the pro forma disclosures required by Statement of Financial Accounting Standards (“SFAS”) No. 123 “Accounting for Stock Based Compensation” (“SFAS No. 123”) as amended by

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

SFAS No. 148 "Accounting for Stock Based Compensation—Transition and Disclosure". The Company measures compensation expense relating to non-employee stock awards in accordance with SFAS No. 123.

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net loss for the quarters ended April 2, 2004 and April 4, 2003, respectively, would have been increased to the pro forma amounts indicated below (in millions, except per share data):

	Quarter Ended	
	April 2, 2004	April 4, 2003
Net loss, as reported	$(47.6)	$(50.5)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	—	0.1
Less: Stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(6.2)	(3.5)
Pro forma net loss	(53.8)	(53.9)
Less: Accretion to redemption value of convertible redeemable preferred stock	(1.8)	—
Less: Redeemable preferred stock dividends	(2.4)	(2.2)
Pro forma net loss applicable to common stock	$(58.0)	$(56.1)
Loss per share:		
Basic—as reported	$(0.23)	$(0.30)
Basic—pro forma	$(0.25)	$(0.32)
Diluted—as reported	$(0.23)	$(0.30)
Diluted—pro forma	$(0.25)	$(0.32)

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

	Quarter Ended	
Employee Stock Options	April 2, 2004	April 4, 2003
Expected life (in years)	5	5
Risk-free interest rate	3.20%	3.03%
Volatility	0.70	0.70

	Quarter Ended	
Employee Stock Purchase Plan	April 2, 2004	April 4, 2003
Expected life (in years)	0.25	0.25
Risk-free interest rate	0.95%	1.22%
Volatility	0.60	0.70

The weighted-average estimated fair value of employee stock options granted during the first quarters of 2004 and 2003 was $4.23 and $0.76 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during the first quarters of 2004 and 2003 was $1.63 and $0.37 per share, respectively.

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 April 2, 2004 (in millions):

Remainder of 2004	$ 6.7
2005	5.8
2006	2.6
2007	0.8
2008	0.3
Thereafter	1.0
Total	$17.2

The Company also enters into various capital purchase obligations, supply agreements and service agreements with various vendors. The obligations, which are not cancelable without penalty, for these types of agreements are as follows as of April 2, 2004:

Contractual obligations	Total	Remainder of 2004	2005	2006	2007	2008	Thereafter
Capital purchase obligations	$ 0.5	$ 0.5	$ —	$ —	$ —	$ —	$ —
Foundry and inventory purchase obligations	31.5	31.5	—	—	—	—	—
Mainframe support	15.3	6.2	7.4	1.7			—
Various information technology and communication services	44.4	19.1	8.9	6.1	4.6	5.7	—
Other	2.9	1.4	0.9	0.6	—	—	—
	$94.6	$ 58.7	$17.2	$ 8.4	$ 4.6	$ 5.7	$ —

The Company obtained a letter of credit to secure obligations of up to $2.6 million under a service agreement with an information technology vendor. A downgrade in the Company’s debt rating could trigger acceleration of remaining amounts due under this agreement, a portion of which could be satisfied upon payment of the letter of credit. The agreement expires in 2006. The letter of credit is renewable annually until 2005 when it expires.

Other Contingencies

The Company’s manufacturing facility in Phoenix, Arizona is located on property that is a “Superfund” site, a property listed on the National Priorities List and subject to clean-up activities under the Comprehensive Environmental Response, Compensation, and Liability Act. As part of the Company’s August 4, 1999 recapitalization, Motorola retained responsibility for this contamination, and has agreed to indemnify the Company with respect to remediation and other costs or liabilities related to this matter. 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.

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

the other party against losses due to intellectual property infringement, property damage including environmental contamination, personal injury, failure to comply with applicable laws, the Company's negligence or willful misconduct, or breach of representations and warranties and covenants related to such matters as title to sold assets.

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

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

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

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

Legal Matters

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

During the period July 5, 2001 through July 27, 2001, the Company was named as a defendant in three shareholder class action lawsuits that were filed in federal court in New York City against the Company and certain of its former officers, current and former directors and the underwriters for its initial public offering. The lawsuits allege violations of the federal securities laws and have been docketed in the U.S. District Court for the Southern District of New York as: *Abrams v. ON Semiconductor Corp., et al.*, C.A. No. 01- CV-6114; *Breuer v. ON Semiconductor Corp., et al.*, C.A. No. 01-CV-6287; and *Cohen v. ON Semiconductor Corp., et al.*, C.A. No. 01-CV-6942. On April 19, 2002, the plaintiffs filed a single consolidated amended complaint that supersedes the individual complaints originally filed. The amended complaint alleges, among other things, that the underwriters

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

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 its 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 us, to a single federal district judge for purposes of coordinated case management. The Company believes that the claims against it are without merit and has defended, and intends 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.

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 our individual former officers and current and former directors who were named as defendants in our litigation, and they are no longer parties to the litigation. On February 19, 2003, the Court issued its ruling on the motions to dismiss filed by the underwriter and issuer defendants. In that ruling the Court granted in part and denied in part those motions. As to the claims brought against the Company under the antifraud provisions of the securities laws, the Court dismissed all of these claims with prejudice, and refused to allow plaintiffs the opportunity to re-plead these claims. As to the claims brought under the registration provisions of the securities laws, which do not require that intent to defraud be pleaded, the Court denied the motion to dismiss these claims as to the Company and as to substantially all of the other issuer defendants as well. The Court also denied the underwriter defendants' motion to dismiss in all respects.

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

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient

Table of Contents

to pay that issuer's allocable share of the settlement costs. The Company expects that its insurance proceeds will be sufficient for these purposes and that the Company will not otherwise be required to contribute to the proposed settlement. Consummation of the proposed settlement is conditioned upon, among other things, negotiating, executing, and filing with the Court final settlement documents, and final approval by the Court. Formal settlement documents for submission to the Court are currently being drafted. If the proposed settlement described above is not consummated, however, the Company intends to continue to defend the litigation vigorously. While the Company can make no promises or guarantees as to the outcome of these proceedings, the Company believes that the final result of these actions will have no material effect on its consolidated financial condition, results of operations or cash flows.

Note 10: Related Party Transactions

Immediately prior to our August 4, 1999 recapitalization, the Company was a wholly-owned subsidiary of Motorola, Inc. As a result of the recapitalization, an affiliate of Texas Pacific Group owned approximately 91% and Motorola owned approximately 9% of our outstanding common stock. During 2003, Motorola sold its shares of the Company's common stock and is no longer a related party. Therefore, related party activities between the Company and Motorola are presented as follows (in millions) only for the quarter ended April 4, 2003, and as of December 31, 2003, when Motorola was a related party:

	Quarter ended April 4, 2003
Revenues from Motorola	$ 21.5
Cash paid for:	
Purchases of manufacturing services from Motorola	$ 1.9
Cost of other services, rent and equipment purchased from Motorola	$ 0.4
Cash received for:	
Freight sharing agreement with Motorola	$ —
Rental of property and equipment to Motorola	$ 2.2
Product sales to Motorola	$ 15.4

	As of December 31, 2003
Accounts receivable from Motorola	$ 7.7
Accounts payable to Motorola	$ 0.4
Accrued expenses payable to Motorola	$ 0.7
Long-term debt payable to Motorola	$ 139.9

Note 11: Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force ("EITF") reached final consensuses on Issue 03-6 "Participating Securities and the Two-Class Method under FASB Statement No. 128, *Earnings per Share"* ("Issue 03-6"). Issue 03-6 addresses the computation of earnings per share by companies that have issued securities other than common stock, which securities entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating earnings per share. The Company does not expect the adoption of Issue 03-6 to impact its financial condition or results of operations.

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/A filed with the SEC on March 22, 2004. Management's Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risk, uncertainties and other factors. Actual results could differ materially because of certain factors discussed below and elsewhere in this Form 10-Q.

Executive Overview

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

Industry Overview

We participate in unit and revenue surveys and use data summarized by the World Semiconductor Trade Statistics 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 20% in 2004 as compared to 14% for 2003 and approximately 10% for 2003 to 2006. These are projections and may not be indicative of actual results. Other industry data also indicate that the market for our products has begun to expand after the recent and prolonged downturn.

Business and Company Overview

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

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

We have four main product lines: power management and standard analog devices, metal oxide semiconductor (MOS) power devices, high frequency clock and data management devices and standard components. Our extensive portfolio of devices enables us to offer advanced integrated circuits and the "building block" components that deliver system level functionality and design solutions. Our product portfolio currently comprises approximately 17,000 products and we shipped approximately 25.4 billion units in 2003. We specialize in micro packages, which offer increased performance characteristics while reducing the critical board space inside today's ever shrinking electronic devices. We believe that our ability to offer a broad range of products provides our customers with single source purchasing on a cost-effective and timely basis.

We have approximately 185 direct customers worldwide, and we also service approximately 280 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 Alcatel, Intel, Motorola, Nokia, Philips, Siemens and Sony; (2) electronic manufacturing service providers, such as Flextronics, Jabil and Solectron; and (3) global distributors, such as Arrow, Avnet, EBV Elektronik, Future, Solomon Enterprise and World Peace.

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

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.

We believe we have entered into a cycle of rising volume and prices, as our manufacturing capacity utilization has increased to over 90%, our book-to-bill ratio has exceeded 1 in each quarter of the past five quarters and we have been able to selectively increase prices on some products where there are market shortages.

These recent trends are in sharp contrast to the last three years during which we had to consistently reduce our costs in order to generate sufficient cash flow to fund investments in new products and expand production capabilities in lower cost areas of the world.

Cost Savings and Restructuring Activities

Since the fourth quarter of 2000, we have been implementing profitability enhancement programs to improve our cost structure and as a result, we expect to rank, as compared to our primary competitors, among the lowest in terms of cost structure. In 2004 we expect to realize the full benefit of our 2002 profitability enhancement program and expect to achieve approximately $151 million of annualized cost savings as compared to our cost structure during the third quarter of 2002. Our 2004 profitability enhancement program primarily includes the phase out of our manufacturing operations in East Greenwich, R.I. and our assembly and test operations in the Czech Republic, both of which are expected to be completed by the end of 2004. We expect the cost savings from these activities will produce approximately $20 million to $25 million of annual cost savings beginning in 2005. In the first quarter of 2004, we entered into a five-year agreement with respect to the outsourcing of information technology infrastructure. As part of the agreement, we sold certain system software modules, resulting in a loss on disposal of assets of $12.0 million. As a result of these actions, we expect to achieve approximately $1.0 million per quarter of cost savings in future quarters. While facility closures and production shifts have resulted in some reductions in our manufacturing capacity, we do not expect these reductions to affect our ability to meet our foreseeable productions needs. Our profitability enhancement programs will continue to focus on:

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

New Product Innovation

As a result of the success of our research and development initiatives, we introduced 260 new products in 2003 and an additional 21 new products in the first quarter of 2004. The primary emphasis of our new product development efforts is on power management and high frequency clock and data management solutions, which we expect to be among the highest margin product families within our portfolio.

Debt Reduction and Financing Activities

Since we became an independent company as a result of our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. During the second half of 2003, we began undertaking measures to reduce our long-term debt, reduce the related interest costs and, in some cases, extend a portion of our debt maturities to provide additional operating flexibility. These actions included using our September 2003 equity offering proceeds to prepay our senior bank facilities, issuing lower cost debt to prepay our senior bank facilities and amending our senior bank facilities to extend our maturities and provide a lower interest rate.

In the first quarter of 2004 we continued to focus on reducing our long-term debt and associated interest expense by redeeming $70 million principal amount of our first lien senior secured notes due 2010 and $105 million principal amount of our second lien senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes (plus accrued an unpaid interest to the redemption date) with a portion of the proceeds from our February 2004 sale of 34.4 million shares of common stock at a public offering price of $6.98 per share. In connection with the offering we amended our senior bank facilities to permit us to use the proceeds of such offering within 270 days of completion to purchase, redeem or retire a portion of our senior subordinated notes due 2009 and our first lien senior secured notes and second lien senior secured notes.

In April 2004 we issued $260.0 million principal amount of zero coupon convertible senior subordinated notes due 2024. We expect to use the net proceeds from the offering for the repurchase and retirement of our outstanding senior subordinated notes due 2009. The zero coupon convertible senior subordinated notes are convertible under certain circumstances into approximately 26.5 million shares of our common stock at a conversion price of approximately $9.82 per share.

As a result of the first quarter of 2004 redemption of the first lien and the second lien senior secured notes, the expected repurchase of our senior subordinated notes due 2009, and the refinancing of our senior bank facilities (discussed below), we expect to reduce interest expense by approximately $53 million annually.

On April 22, 2004 we refinanced $320.5 million of loans under our senior bank facilities. We replaced our tranche E term loan facility with a new tranche F term loan facility, which bears interest at a rate that is 0.50% per annum lower than the rate borne by the tranche E term loan facility. Principal repayments of the new tranche F term loan facility will be due throughout 2008 and 2009, provided that, if we have not redeemed or repurchased our second lien senior secured notes in full prior to November 14, 2007, the tranche F term loan facility will mature on November 15, 2007. Additionally, in connection with this repricing, the senior bank facilities were amended to, among other things:

- permit us to use for general corporate purposes up to $30 million of the proceeds from the sale of East Greenwich manufacturing facility;
- subject to certain restrictions, permit us to apply the net proceeds of certain equity or debt issuances to be used to purchase, redeem or retire any of the first lien senior secured notes, second lien senior secured notes or junior subordinated note;
- amend the definition of consolidated EBITDA in the credit agreement relating to the senior credit facilities to permit the add back of premiums associated with the redemption, repayment or repurchase of securities; and
- replace the existing revolving credit facility with a new facility that bears interest at a rate that is 0.50% per annum lower than the rate borne by the existing revolving facility.

Table of Contents

For further details of these financing activities see Note 6 "Long-Term Debt" and "Liquidity and Capital Resources – Key Financing Events" elsewhere in this Form 10-Q.

Outlook

Based upon booking trends, backlog levels and estimated turns levels, we anticipate that revenues for the second quarter of 2004 will increase by 6% to 7% as compared to the first quarter of 2004. We expect average selling prices will increase in the second quarter of 2004 and our gross margins will increase by 150 to 200 basis points.

For the second quarter of 2004, we expect selling and marketing and general and administrative expenses to range from 11% to 12% of revenues and research and development expenses to range from 7% to 8% of revenues.

Results of Operations

The following table summarizes certain information relating to our operating results that has been derived from our consolidated financial statements for the quarters ended April 2, 2004 and April 4, 2003. The amounts in the following table are in millions, except for percentage changes:

	Quarter Ended			
	April 2, 2004	April 4, 2003(1)	Dollar Change	Percent Change
Revenues	$ 308.2	$ 269.5	$ 38.7	14.4 %
Cost of revenues	212.3	194.7	17.6	9.0
Gross profit	95.9	74.8	21.1	28.2
Operating expenses:				
Research and development	23.5	21.1	2.4	11.4
Selling and marketing	18.4	16.1	2.3	14.3
General and administrative	17.2	19.6	(2.4)	(12.2)
Amortization of intangible asset	—	3.0	(3.0)	(100.0)
Restructuring, asset impairments and other, net	13.1	—	13.1	100.0
Total operating expenses	72.2	59.8	12.4	20.7
Operating income (loss)	23.7	15.0	8.7	58.0
Other income (expenses), net:				
Interest expense	(34.3)	(39.1)	(4.8)	(12.3)
Interest income	0.4	0.7	0.3	(42.9)
Realized and unrealized foreign currency gains or losses	(1.7)	1.3	3.0	nm
Loss on debt prepayment	(33.0)	(3.5)	29.5	nm
Other income (expenses), net	(68.6)	(40.6)	(28.0)	69.0
Loss before income taxes, minority interests and cumulative effect of accounting change	(44.9)	(25.6)	(19.3)	75.4
Income tax provision	(1.6)	(2.2)	0.6	(27.3)
Minority interests	(1.1)	(1.2)	0.1	(8.3)
Loss before cumulative effect of accounting change	(47.6)	(29.0)	(18.6)	64.1
Cumulative effect of accounting change	—	(21.5)	21.5	nm
Net loss	$ (47.6)	$ (50.5)	2.9	(5.7)

(1) In the second quarter of 2003, upon the adoption of FASB Interpretation No. 45 we consolidated our investment of Leshan-Phoenix Semiconductor, Ltd. ("Leshan") that was previously accounted for using the equity method. Also in the second quarter of 2003 we recorded a cumulative effect of accounting change related to the recognition of actuarial gains and losses associated with our defined benefit plans. The historical results for the quarter ended April 4, 2003 have been revised to reflect both of these accounting changes.

nm = Not meaningful

Revenues

Revenues were $308.2 million in the first quarter of 2004 as compared to $269.5 in the first quarter of 2003. The 14.4% increase is primarily due to improvements in volume, which have been partially offset by a decrease in average selling prices of approximately 8%. Average selling prices dropped in each quarter of 2003 due to industry competition; however, as capacity utilization began to exceed 85% on an industry-wide basis during the third quarter of 2003, pricing began to stabilize. Our average selling prices in the first quarter of 2004 relative to the fourth quarter of 2003 increased by approximately 1.0%. The revenues by product line are as follows (dollars in millions):

	Quarter Ended April 2, 2004	As a % Revenue	Quarter Ended April 4, 2003	As a % Revenue	Dollar Change	% Change
Power Management and Standard Analog	$ 91.2	29.6%	$ 83.6	31.0%	$ 7.6	9.1%
MOS Power Devices	53.2	17.3%	35.7	13.2%	17.5	49.0%
High Frequency Clock and Data Management	26.0	8.4%	19.3	7.2%	6.7	34.7%
Standard Components	137.8	44.7%	130.9	48.6%	6.9	5.3%
Total Revenues	$ 308.2		$ 269.5		$ 38.7	

Revenues from our power management and standard analog product line increased $7.6 million, or 9.1%, as increases in revenues attributable to power conversion and portable products were partially offset by decreases in automotive product revenues.

Revenues from MOS power devices increased $17.5 million, or 49.0%, in the first quarter of 2004 as compared to the first quarter of 2003. The primary growth in revenue can be attributed to the success of several new products designed for the computing, cell phone and consumer electronic end markets.

Revenues from high frequency clock and data management products increased $6.7 million, or 34.7%, in the first quarter of 2004 as compared to the first quarter of 2003. The growth in this sector is primarily driven by the automated test equipment causing the increase in revenues both in absolute dollars and as a percentage of revenues.

Revenue from standard components increased $6.9 million, or 5.3%, in the first quarter of 2004 as compared to the first quarter of 2003. The increase in revenue is attributed to increased demand for products used in wireless and handheld applications, and computing, as well as increased unit pricing.

Revenues by geographic area as a percentage of revenues were as follows:

	Quarter Ended April 2, 2004	As a % Revenue	Quarter Ended April 4, 2003	As a % Revenue
Americas	95.6	31%	$ 92.2	34%
Asia Pacific	159.3	52%	129.0	48%
Europe	53.3	17%	48.3	18%
Total	$ 308.2	100%	$ 269.5	100%

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices. In recent years, there has been a trend toward moving such manufacturing activities to lower cost regions, particularly in Asia. Our shift in revenues by geographic area reflects this trend.

Gross Profit

Our gross profit was $95.5 million and $74.8 million in first quarter of 2004 and in the first quarter of 2003, respectively. As a percentage of revenues, our gross margin was 31.1% in the first quarter of 2004 as compared to 27.8% in the first quarter of 2003. Although declines in average selling prices had a detrimental impact on our gross margin during the first quarter 2004 as compared to first quarter 2003, we were able to more than offset these effects through increased sales volume, improved manufacturing capacity utilization and cost savings from our restructuring programs.

Operating Expenses

Research and development expenses were $23.5 million in the first quarter of 2004 compared to $21.1 million in the first quarter of 2003 representing an increase of $2.4 million or 11.4%. Research and development expenses remained relatively consistent representing 7.6% and 7.8% of revenues in the first quarter of 2004 and 2003, respectively. The $2.4 million increase in research and development is attributable to increased personnel and software application costs associated with new application and platform development initiatives. The primary emphasis of our new product development efforts has been, and continues to be, in the expected high growth market applications of power management and high frequency clock and data management solutions, with over 70% of our overall research and development investments focused in these areas.

Selling and marketing expenses were $18.4 million in the first quarter of 2004 and $16.1 million in the first quarter of 2003 representing an increase of $2.3 million or 14.3%. Selling and marketing remained a constant 6.0% as percentage of sales in the first quarter of 2004 and 2003, respectively. The $2.3 million increase is attributable to increased personnel in our internal sales and marketing personnel and field application engineers, increased commissions and bonuses as well as increased costs associated with marketing and pricing software tools. We plan to make investments in our sales and marketing systems to identify new customers as well as to expand our penetration of existing customers in selected product areas.

General and administrative expenses were $17.2 million in the first quarter of 2004 compared to $19.6 million in the first quarter of 2003, representing 5.6% and 7.3% of revenues in those periods. The decrease is attributable to the cost savings from the relocation of functions to lower cost regions, reduced executive hiring costs and lower costs for outside consultants and services related to information technology functions.

Amortization of goodwill and other intangibles was $3.0 million in the first quarter of 2003. In the third quarter of 2003, we ceased amortization of our developed technology intangible asset when we wrote-off the remaining balance acquired in connection with our acquisition of Cherry Semiconductor in April 2000.

Other Operating Expenses — Restructuring, Asset Impairments and Other

Restructuring, asset impairments and other charges were $13.1 million in the first quarter of 2004. These charges included $12.0 million of loss on sale of fixed assets, $1.0 million to cover employee separation costs, and $0.1 million of exit costs.

In the first quarter of 2004, we entered into a five-year agreement with respect to the outsourcing of information technology (“IT”) infrastructure, messaging, data center network, help desk and onsite management services. As part of the agreement, we sold certain system software modules, licenses and the hardware for $3.8 million, which had a net book value of $15.8 million prior to the sale, resulting in a loss on disposal of assets of $12.0 million. We then leased back such system software modules and associated hardware and leased certain new hardware. Outside appraisals were done on these assets to help management estimate their fair market value.

As a result of the new IT outsourcing agreement we plan to reduce our current IT staffing levels. In connection with this reduction, we recorded a $0.3 million severance charge related to the termination of 12

employees in the United States. All terminations and associated severance payments related to these charges are expected to be completed by the fourth quarter of 2004. As a result of these actions, we expect to achieve approximately $1.0 million per quarter of cost savings in future quarters.

The remaining $0.7 million of employee separation costs relates to the previously announced shutdown of our back-end manufacturing lines in Roznov, Czech Republic. This amount represents a portion of the total severance benefits for approximately 460 employees. We previously recorded a similar charge of $0.5 million in the fourth quarter of 2003, and we estimate that additional severance charges of approximately $0.9 million related to such shutdown will be recognized ratably throughout the remainder of 2004.

The $0.1 million of exit costs relate to certain exit activities that were completed in connection with the previously announced shutdown of our manufacturing operations in East Greenwich, Rhode Island.

For more information on our restructuring activity see Note 4 “Restructuring, Asset Impairments and Other, net” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Interest Expense

Interest expense was $34.3 million in the first quarter of 2004 compared to $39.1 million in the first quarter of 2003. The decrease in interest expense is a result of decreased principal amounts due under our senior bank facilities and our senior secured second lien notes, which were partially offset by an increase in the average principal amount due under our senior secured first lien notes for the first quarter of 2004 as compared to the first quarter of 2003 as a result of the timing of the initial issuance and repayment of these notes. Our average month-end long-term debt balance (including current maturities) in the first quarter of 2003 was $1,429.8 million with a weighted average interest rate of 10.9% compared to $1,250.2 million and a weighted average interest rate of 11.0% in the first quarter of 2004. In addition, through March 2003 we were charged supplemental interest on our senior bank facilities. See also “Liquidity and Capital Resources — Key Financing Events” for a description of our current refinancing activities.

Loss on Debt Prepayment

Loss on debt prepayment totaled $33.0 million and $3.5 million in first quarters of 2004 and 2003, respectively. These amounts represent the write-off of debt issuance costs and certain third-party costs incurred with respect to debt refinancings that occurred during those periods. The $33.0 million first quarter amount also includes approximately $21.0 of redemption premiums paid in connection with the partial retirement of our first lien senior secured notes and second lien senior secured notes.

Provision for Income Taxes

Provision for income taxes was $2.2 million and $1.6 million in first quarter of 2004 and 2003, respectively. The provision related to income and withholding taxes of certain of our foreign operations.

Cumulative Effect of Accounting Change

During 2003 we changed our method of accounting for net unrecognized actuarial gains or losses relating to our defined benefit pension obligations and recorded a charge of $21.5 million, both before and after taxes. For further discussion on this change see Note 3, “Accounting Change” in our unaudited consolidated financial statements included elsewhere in this report.

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.

Table of Contents

Cash Requirements

Commercial Commitment and Contractual Obligations

Our principal outstanding contractual obligations relate to our senior bank facilities, other long-term debt, operating leases, purchase obligations, pension obligations and our redeemable preferred stock. The following table summarizes our contractual obligations at April 2, 2004 and the effect such obligations are expected to have on our liquidity and cash flow in the future:

	Amount of Commitment by Expiration Period						
Commercial commitments	**Total**	**Remainder of 2004**	**2005**	**2006**	**2007**	**2008**	**2009 and Thereafter**
Standby letter of credit	$ 15.7	$ 3.6	$ 9.3	$ 0.7	$ —	$ —	$ 2.1

	Payments Due by Period						
Contractual obligations	**Total**	**Remainder of 2004**	**2005**	**2006**	**2007**	**2008**	**2009 and Thereafter**
Long-term debt	$ 1,141.2	$ 11.1	$ 13.0	$ 154.0	$ 226.0	$ 195.4	$ 541.7
Operating leases	17.2	6.7	5.8	2.6	0.8	0.3	1.0
Other long-term obligations — pension plans	37.9	10.2	21.7	1.7	1.5	1.3	1.5
Redeemable preferred stock	163.8	—	—	—	—	—	163.8
Purchase obligations:							
Capital purchase obligations	0.5	0.5	—	—	—	—	—
Foundry and inventory purchase obligations	31.5	31.5	—	—	—	—	—
Mainframe support	15.3	6.2	7.4	1.7			—
Information technology and communication services	44.4	19.1	8.9	6.1	4.6	5.7	—
Other	2.9	1.4	0.9	0.6	—	—	—
Total contractual obligations	$ 1,454.7	$ 86.7	$ 57.7	$ 166.7	$ 232.9	$ 202.7	$ 708.0

Our long-term debt includes $320.1 million under senior bank facilities, $124.7 million of senior secured notes (net of unamortized discount) due 2010, $190.4 million of senior secured notes (net of unamortized discount) due 2008, $260.0 million of senior subordinated notes due 2009, $143.4 million under the junior subordinated note, $23.0 million under a note payable to a Japanese bank, $20.0 million under a loan facility with a Chinese bank, $46.8 million under a loan facility with another Chinese bank and $12.8 million of capital lease obligations. See Note 6 "Long-Term Debt" of the notes to our unaudited consolidated financial statements included elsewhere in this report.

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 Series A Cumulative Convertible Redeemable Preferred Stock is redeemable at the holder's option anytime after September 7, 2009. The preferred stock has a cumulative dividend payable quarterly in cash, at the rate of 8.0% per annum (or, if greater during the relevant quarterly period, in an amount equal to the value of the dividends that would be paid on the common stock then issuable upon conversion of the preferred stock), compounded to the extent not paid, and subject to restrictions under our senior bank facilities, senior subordinated notes and other documents relating to our indebtedness. The amount shown in the table above assumes no conversion of the preferred stock or redemption until the earliest redemption date of September 7, 2009. We are required to accrete the value of the preferred stock to its redemption value, and any resulting non-cash charge would reduce net income applicable to common stock for purposes of calculating earnings per share.

Our balance of cash and cash equivalents was $221.4 million at April 2, 2004. We believe we have sufficient cash to meet our liquidity needs over the next twelve months. Our senior bank facilities include a $25.0 million revolving facility. Letters of credit totaling $12.6 million were outstanding under the revolving facility at April 2, 2004. 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.

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

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

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

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

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

Sources and Uses of Cash

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

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

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

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

If we fail to generate sufficient cash from operations, we may need to raise additional equity or borrow additional funds to achieve our longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us. We believe that cash flow from operating activities coupled with existing cash balances will be adequate to fund our operating and capital needs as well as enable us to maintain compliance with our various debt agreements through April 2, 2005. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

Operations

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

Table of Contents

EBITDA

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a key indicator that management uses to evaluate our operating performance. While EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as an indicator of operating performance or an alternative to cash flow as a measure of liquidity, we believe this measure is useful to investors to assess our ability to meet our future debt service, capital expenditure and working capital requirements. This calculation may differ in method of calculation from similarly titled measures used by other companies. The following table sets forth our EBITDA for the three months ended April 2, 2004, December 31, 2003, and April 4, 2003, with a reconciliation to cash flows from operations, the most directly comparable financial measure under generally accepted accounting principles:

	Quarter Ended		
	April 2, 2004	December 31, 2003	April 4, 2003(1)
Net loss	$ (47.6)	$ (42.4)	$ (50.5)
Plus:			
Depreciation and amortization	26.3	27.2	36.0
Interest expense	34.3	35.0	39.1
Interest income	(0.4)	(0.6)	(0.7)
Income tax provision (benefit)	1.6	1.4	2.2
EBITDA	14.2	20.6	26.1
Increase (decrease):			
Interest expense	(34.3)	(35.0)	(39.1)
Interest income	0.4	0.6	0.7
Income tax provision (benefit)	(1.6)	(1.4)	(2.2)
Loss on sale of fixed assets	12.1	0.4	0.3
Loss on debt prepayment	33.0	1.3	3.5
Amortization of debt issuance costs and debt discount	1.9	1.8	2.2
Provision for excess inventories	—	4.6	4.0
Cumulative effect of accounting change	—	—	21.5
Non-cash impairment of property, plant and equipment	—	20.2	—
Non-cash impairment of other long-lived assets	—	4.3	—
Non-cash interest on junior subordinated note payable to Motorola	3.5	3.2	3.3
Deferred income taxes	(0.8)	5.1	(2.5)
Stock compensation expense	—	—	0.1
Other	1.2	0.6	1.6
Changes in operating assets and liabilities	3.2	1.5	(14.9)
Net cash provided by operating activities	$ 32.8	$ 27.8	$ 4.6

(1) Amounts have been revised from those previously reported in the Quarterly Report on Form 10-Q for the quarter ended April 4, 2003 to reflect the consolidation of our majority-owned investment in Leshan-Phoenix Semiconductor and the change in methodology for recognizing actuarial gains or losses relating to the defined benefit pension obligations.

As discussed in "Debt Instruments, Guarantees and Related Covenants" included elsewhere in this report, our debt covenants require us to maintain minimum adjusted EBITDA levels, as defined by our credit agreement. This adjusted EBITDA computation excludes certain restructuring and other charges and contains other differences from the EBITDA as defined above. Therefore, EBITDA in the above table is not representative of the adjusted EBITDA used to determine our debt covenant compliance.

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 raw materials 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 $250.8 million at April 2, 2004.

The components of our working capital at April 2, 2004 and December 31, 2003 are set forth below, followed by explanations for significant changes between December 31, 2003 and April 2, 2004:

	April 2, 2004	December 31, 2003	Change
Current assets			
Cash and cash equivalents	$ 221.4	$ 186.6	$ 34.8
Receivables, net	153.4	136.1	17.3
Inventories, net	183.8	171.6	12.2
Other current assets	32.5	25.7	6.8
Deferred income taxes	3.1	2.7	0.4
Total current assets	594.2	522.7	71.5
Current liabilities			
Accounts payable	$ 126.5	$ 115.7	$ 10.8
Accrued expenses	102.7	89.9	12.8
Income taxes payable	1.7	1.7	—
Accrued interest	16.1	25.3	(9.2)
Deferred income on sales to distributors	81.1	66.2	14.9
Current portion of long-term debt	15.3	11.4	3.9
Total current liabilities	343.4	310.2	33.2
Net working capital	$ 250.8	$ 212.5	$ 38.3

The increase in cash and cash equivalents of $34.8 million is primarily attributable to cash provided by operating activities of $32.8 million and by unused proceeds from the February 2004 equity offering, partially offset by capital expenditures during the quarter of $30.6 million. See further discussion under “Key Financing Events”.

The increase in accounts receivable is primarily attributable to an increase in sales during the first quarter of 2004 as compared to the last quarter of 2003. Revenue growth could cause further growth in our receivable portfolio, unless such growth can be offset by reduced credit terms or improved collection rates.

The increase in inventory is attributable to an increase in production at the end of the first quarter of 2004 necessitated by increased backlog. Improved demand could cause a further increase in inventory if we expand production in response.

The increase in other current assets during the first quarter of 2004 is primarily due to a receivable in connection with the sale-leaseback of certain IT systems, as well as increases in certain value added tax (VAT) amounts in Europe.

The increase in accounts payable in the first quarter of 2004 was mainly a result of inventory build up to meet projected demand increases.

The increase in accrued expenses was attributable to an increase in accrued payroll and accrued bonuses, as well as related employee benefit accruals. These increases were partially offset by a net decrease in sales reserves due to payments under certain distribution sale incentive programs.

The decrease in accrued interest is primarily attributable to the repayment of loans under our second lien senior secured notes with the proceeds of the February 2004 equity offering that accelerated certain interest payments to the first quarter of 2004.

The increase in deferred income is attributable to increased inventory levels at distributors as compared to December 31, 2003 as a result of increased resales to distributors of 11-12% and price increases in the distribution channel by 2-3%.

The decrease in current portion of long-term debt relates to the effects of our refinancing activities as described in "Key Financing Events" below.

Long-Term Assets and Liabilities

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

Our manufacturing rationalization plans have included efforts to more efficiently utilize our existing manufacturing assets and supply arrangements. As we have consolidated our operations in few locations, we have not needed to incur large capital expenditures. Accordingly, our capital expenditures during 2003 and 2004 have been at less than historical rates. We do not expect that our capital expenditure reductions will have a negative impact on our ability to service our customers, as we believe that near-term access to additional manufacturing capacity, should it be required, could be readily obtained on reasonable terms through manufacturing agreements with third parties. Capital expenditures were $30.6 million during the first quarter of 2004 and $6.2 million during the first quarter of 2003. Although our debt covenants contain certain restrictions that limit our amount of future capital expenditures, we do not believe that these restrictions will have a significant impact on our future operating performance.

Our long-term liabilities, excluding long-term debt, consist of liabilities under our foreign and domestic defined benefit pension plans and other miscellaneous liabilities. Our annual funding for the pension plan obligations is equal to the minimum legal required amount in each jurisdiction in which the plans operate. This annual amount is dependent upon many actuarial assumptions.

Key Financing Events

Overview

Set forth below is a summary of the recent key financing events affecting our capital structure.

Since we became an independent company as a result of our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. Our long-term debt includes significant amounts under our senior bank facilities, which contained minimum interest coverage ratio and maximum leverage ratio covenants with which we were not in compliance as of June 29, 2001. We obtained a waiver in respect of such non-compliance and any future non-compliance through 2002 and amended our senior bank facilities to make these covenants less restrictive through 2005; however, in connection with such waiver and amendment, we added minimum cash and EBITDA covenants and agreed to pay additional supplemental interest and obtain a $100 million equity investment from our principal stockholder.

During the second half of 2003, we began undertaking measures to reduce our long-term debt, reduce related interest costs and, in some cases, extend a portion of our debt maturities to continue to provide us additional operating flexibility. In September 2003, we issued approximately 37.0 million shares of our common stock at a public offering price of $4.50 per share, the net proceeds of which were used to prepay a portion of our senior bank facilities. In connection with this offering, we amended our senior bank facilities to, among other things, extend the average maturity of the term loans through a refinancing of $100 million of such loans and replace our $62.5 million revolving facility with a new $25.0 million revolving facility.

In November 2003, we further amended our senior bank facilities to, among other things, reduce the interest rate on our outstanding term loans by 0.75%. In November 2003, we extended the maturity of our $20.0 million loan facility with a Chinese bank for an additional three years under the same terms and conditions. In December 2003, we prepaid approximately $48.0 million of loans under our senior bank facilities with the proceeds from a new loan facility with a Chinese bank that bears interest at LIBOR plus 1.5%, as compared to LIBOR plus 3.25% then payable under our senior bank facilities.

In the first quarter of 2004, we used the net proceeds of the sale of approximately 34.4 million shares of our common stock at a public offering price of $6.98 per share to redeem $70 million principal amount of our first lien senior secured notes due 2010 and $105 million principal amount of our second lien senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes plus accrued and unpaid interest to the redemption date. The remaining proceeds will be used for general corporate purposes. In connection with the offering we further amended our senior bank facilities to permit us to use the proceeds of such offering within 270 days of completion to purchase, redeem or retire a portion of our senior subordinated notes due 2009 and our first lien senior secured notes and second lien senior secured notes.

In April 2004, we further amended our senior bank facilities. See “April 2004 Amendment to Senior Bank Facilities and Loan Repricing” below.

The details of each of these financing events are outlined below. Also, see Note 6 “Long-Term Debt” and Note 7 “Common Stock” of the notes to our unaudited consolidated financial statements included elsewhere in this report.

September 2003 Public Offering of Common Stock and Amendment to Senior Bank Facilities

On September 23, 2003, we issued approximately 37.0 million shares of our common stock at a public offering price of $4.50 per share. The net proceeds of the offering were $156.8 million (after deducting the underwriters’ discount of $8.2 million and offering expenses of $1.4 million, including $0.4 million that were unpaid as of December 31, 2003). We used the net proceeds to prepay $152.7 million of our senior bank facilities and to fund $3.8 million of costs associated with our amendment to our senior bank facilities, as described below. In connection with this prepayment, we wrote off $2.5 million of debt issuance costs.

In connection with the offering, we amended our senior bank facilities to, among other things:

- provide us with additional tranche D term loans under our senior bank facilities aggregating $100.0 million, the entire amount of which was borrowed simultaneously with the completion of offering;
- permit us to apply the net proceeds from equity offerings by us or any of our subsidiaries (including the equity offering described above) and borrowings under the additional tranche D term loans to prepay scheduled principal installments of all term loan borrowings outstanding under our senior bank facilities in chronological order;
- reduce from 75% to 50% the percentage of net proceeds from future equity offerings by us or any of our subsidiaries that are required to be applied to prepay term loan borrowings outstanding under our senior bank facilities; and
- provide us with a new $25.0 million revolving facility that will mature on August 4, 2006, that provides for the issuance of letters of credit in currencies other than U.S. dollars that are to be specified and that, in all other respects, has terms substantially similar to those of our existing revolving facility.

The proceeds of the borrowing under the additional tranche D term loans (which were issued at a discount of $0.5 million) were used to prepay senior credit facility borrowings as described above. Excluding this discount, costs incurred in connection with this debt refinancing totaled $3.8 million, of which $0.4 million was

attributable to third party costs. Such third-party costs were expensed as incurred and included in loss on debt prepayment in our consolidated statement of operations and comprehensive loss for the year ended December 31, 2003. The remaining $3.4 million of debt refinancing costs were included in other assets in our consolidated balance sheet and are being amortized using the effective interest method.

November 2003 Amendment to Senior Bank Facilities and Loan Repricing

In November 2003, we refinanced $368.5 million of term loans under our senior bank facilities. We replaced our tranche B, tranche C and tranche D term loan facilities under our senior bank facilities with a single new tranche E term loan facility with terms, other than the interest rate, that are identical to those of the tranche D term loan facility. The tranche E term loan was due throughout 2006 and 2007, ending in 2007. We also reduced the interest rate on our term loans by 0.75% per annum. Costs incurred in connection with this refinancing totaled $1.0 million, of which $0.2 million was attributable to third party costs, which were expensed as incurred and included in loss on debt prepayment in our consolidated statement of operations and comprehensive loss for the year ended December 31, 2003. The remaining $0.8 million of debt refinancing costs were included in other assets in our consolidated balance sheet and are being amortized using the effective interest method.

December 2003 Chinese Bank Loan

In December 2003, we prepaid approximately $48.0 million of the tranche E term loans under our senior bank facilities with the proceeds from a new loan provided to our joint venture in Leshan, China by the China Construction Bank. The loan facility is comprised of two $24 million tranches. The first tranche has a 10-year term with a balloon payment due December 2013; the second tranche has a three-year term with scheduled principal payments through December 2006, which is extendible for an additional three years under certain circumstances. Each tranche bears interest at a rate of LIBOR plus 1.5% per annum, payable quarterly as compared to LIBOR plus 3.25% then payable under our senior bank facilities.

February 2004 Public Offering of Common Stock and Amendment to Senior Bank Facilities

On February 9, 2004, we and our principal stockholder, Texas Pacific Group, completed a public offering of common stock pursuant to which we issued approximately 34.4 million shares at a public offering price of $6.98 per share. The net proceeds to us from the offering were approximately $226.7 million (after deducting the underwriters' discounts of $10.8 million and offering expenses of $2.4 million). We used a portion of the net proceeds received by us to redeem $70.0 million outstanding principal amount of our first lien senior secured notes and $105.0 million outstanding principal amount of our second lien senior secured notes, in each case on March 10, 2004 at a redemption price of 112.0% of the principal amount of the notes to be redeemed, together with accrued interest to the redemption date. We intend to use the remaining net proceeds for general corporate purposes. In connection with this redemption, we wrote off approximately $12.0 million of debt issuance costs. We did not receive any of the proceeds from the sale of shares by the selling stockholder.

In connection with the offering, we amended our senior bank facilities to, among other things:

- waive the requirement under the credit agreement relating to our senior bank facilities that 50% of the net proceeds of such offering be used to prepay loans under the facilities;
- permit sale and leaseback transactions involving real or personal property with an aggregate fair value of up to $15 million (and permit the asset sales in connection therewith) and provide that net proceeds from asset sales in connection with such transaction will not be required to be used to prepay loans under the senior bank facilities; and
- permit us to purchase, redeem or retire a portion of our first lien senior secured notes due 2010, second lien senior secured notes due 2008 and senior subordinated notes due 2009 with the proceeds of such offering within 270 days after its completion so long as no default or event of default exists under the

credit agreement after giving effect to such purchases, redemptions or retirements, such purchases, redemptions or retirements comply with the indentures governing such notes and we immediately cancel any such notes that are purchased, redeemed or retired.

April 2004 Offer to Repurchase Senior Subordinated Notes and Issuance of Zero Coupon Convertible Senior Subordinated Notes

On April 6, 2004, we commenced a cash tender offer for all of our outstanding 12% Senior Subordinated Notes due 2009. The total consideration offered for each $1,000 dollars of principal amount of notes tendered was $1,089.06, plus accrued interest, if any, to the repurchase date. The Company anticipates redeeming any remaining outstanding senior subordinated notes after the cash tender offer on or about August 1, 2004 at 106% of par value. In order to finance the cash tender offer, we issued $260.0 million of Zero Coupon Convertible Senior Subordinated Notes due 2024. The notes do not bear cash interest, nor does the principal amount accrete. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by certain existing and future subsidiaries of the Company.

Holders may convert the notes into shares of our common stock at a conversion rate of 101.8849 shares per $1,000 principal amount of notes before April 15, 2024 under the following circumstances: (1) during any fiscal quarter commencing after June 30, 2004 through maturity if the closing sale price of the Company's common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading-day period ending on the last trading day of the preceding fiscal quarter; (2) during the five business-day period after any five consecutive trading-day period in which the trading price per $1,000 principal amount of notes for each day of that period was less than 98% of the product of the closing sale price of the Company's common stock and the conversion rate; (3) if the notes have been called for redemption; (4) after the date, if ever, on which either Moody's Investors Service, Inc. or Standard & Poor's Rating Services assigns an initial credit rating to the notes, during any period in which the credit rating assigned to the notes by either Moody's or S&P is three or more rating subcategories below the initial credit rating assigned by Moody's or S&P, as the case may be, or any period in which the notes are no longer rated by either Moody's or S&P, as the case may be, if such ratings agency had previously rated the notes; or (5) upon the occurrence of certain corporate events. Beginning April 15, 2010, we may redeem any of the notes at specified redemption prices. Holders may require us to repurchase the notes for cash on April 15 of 2010, 2014 and 2019. Upon the occurrence of certain corporate events, each holder may require us to purchase all or a portion of such holder's notes for cash at a price equal to the principal amount of such notes. The notes are subordinated in right of payment to all of our senior indebtedness.

We received net proceeds of approximately $251.2 million from the sale of the notes (and would receive approximately $280.3 million if the initial purchasers' right to purchase up to an additional $30.0 million principal amount of note is exercised in full), after deducting discounts and commissions and estimated offering expenses.

April 2004 Amendment to Senior Bank Facilities and Loan Repricing

On April 22, 2004 we refinanced $320.5 million of loans under our senior bank facilities. We replaced our tranche E term loan facility with a new tranche F term loan facility, which bears interest at a rate that is 0.50% per annum lower than the rate borne by the tranche E term loan facility. Principal repayments of the new tranche F term loan facility will be due throughout 2008 and 2009, provided that, if we have not redeemed or repurchased our second lien senior secured notes in full prior to November 14, 2007, the tranche F term loan facility will mature on November 15, 2007. Additionally, in connection with this repricing, the senior bank facilities were amended to, among other things:

- permit us to use for general corporate purposes up to $30 million of the proceeds from the sale of East Greenwich manufacturing facility;
- subject to certain restrictions, permit us to apply the net proceeds of certain equity or debt issuances to be used to purchase, redeem or retire any of the first lien senior secured notes, second lien senior secured notes or junior subordinated note;

- amend the definition of consolidated EBITDA in the credit agreement relating to the senior credit facilities to permit the add back of premiums associated with the redemption, repayment or repurchase of securities; and
- replace the existing revolving credit facility with a new facility that bears interest at a rate that is 0.50% per annum lower than the rate borne by the existing revolving facility.

Debt Instruments, Guarantees and Related Covenants

The following table presents the components of long-term debt as of April 2, 2004 and December 31, 2003:

	April 2, 2004		December 31, 2003	
	Interest Rate	Balance	Interest Rate	Balance
Senior Bank Facilities:				
Tranche E	4.3750%	$ 320.1	4.4375 %	$ 320.1
First-Lien Senior Secured Notes due 2010, 12% interest payable semi-annually, net of debt discount of $5.3 and $8.4		124.7		191.6
Second-Lien Senior Secured Notes due 2008, 13% interest effective February 2003 payable semi-annually, net of debt discount of $4.6 and $7.4		190.4		292.6
12% Senior Subordinated Notes due 2009, interest payable semi-annually		260.0		260.0
10% Junior Subordinated Note due 2011, interest compounded semi-annually, payable at maturity		143.4		139.9
2.3% Note payable to Japanese bank due 2010, interest payable semi-annually		23.0		24.3
Loan with a Chinese bank due 2006, interest payable quarterly at 3.1% and 3.5%, respectively		20.0		20.0
Loan with a Chinese bank, interest payable quarterly at 2.7%		46.8		48.0
Capital lease obligations		12.8		6.4
		1,141.2		1,302.9
Less: Current maturities		(15.3)		(11.4)
		$ 1,125.9		$ 1,291.5

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, first lien secured notes and second lien secured notes.

Semiconductor Components Industries, 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 and Semiconductor Components Industries, LLC are co-issuers of our first lien senior secured notes due 2010, our second lien senior secured notes due 2008 and senior subordinated notes due 2009. Our other domestic subsidiaries fully and unconditionally guarantee on a joint and several basis the obligations of the issuers of such notes. None of our non-U.S. subsidiaries guarantees the senior bank facilities or the notes.

As of April 2, 2004, 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 first lien senior secured notes due 2010, second lien senior secured notes due 2008 and our senior subordinated notes due 2009. We believe that we will be able to comply with the various covenants and other requirements contained in such credit agreement and indentures through April 2, 2005.

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

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

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

Cash Management

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

Accounting Change

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

The impact of this change for periods prior to January 1, 2003 was a charge of $21.5 million or $0.12 per share, both before and after income taxes, and has been reflected as the cumulative effect of accounting change in our consolidated statement of operations and comprehensive loss for the quarter ended April 4, 2003. The effect of the change for the quarter ended April 4, 2003 was to decrease the loss before cumulative effect of accounting change by $1.6 million or $0.01 per share, both before and after income taxes, and to increase the net loss by $19.9 million or $0.11 per share, both before and after income taxes. Absent the accounting change, the $21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

Critical Accounting Policies and Estimates

The accompanying discussion and analysis of our financial condition and results of operation 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. Note 3 “Significant Accounting Policies” of the notes to our audited consolidated financial statements included elsewhere in this report contain a detailed summary of our significant accounting policies. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. We utilize the following critical accounting policies in the preparation of our financial statements.

Revenue. We generate revenue from sales of our semiconductor products to original equipment manufacturers, electronic manufacturing service providers, and distributors. We recognize revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the customer net of provisions for related sales returns and allowances.

Effective January 1, 2001, we changed our revenue recognition policy for distributor sales so that the related revenues are now deferred until the distributor resells the product to the end user. This change eliminated the need to provide for estimated sales returns from distributors. 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 margin when the distributor sells the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

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

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

Deferred Tax Valuation Allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In determining the amount of the valuation allowance, we consider estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction in which we operate. If we determine that we will not realize all or a portion of our remaining deferred tax assets, we will increase our valuation allowance with a charge to income tax expense. Conversely, if we determine that

we will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. In the fourth quarter of 2001, a valuation allowance was established for our domestic deferred tax assets and a portion of our foreign deferred tax assets. Additionally, throughout 2002 and 2003, 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 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 would impact the future expense recognition and cash funding requirements of our pension plans.

Convertible Redeemable Preferred Stock. After September 7, 2009, the convertible redeemable preferred stock is convertible into common stock or redeemable for cash at 50% of the fair market value of the stock into which it is convertible. We account for the difference between the carrying amount of our convertible redeemable preferred stock and the redemption value by increasing the carrying amount for periodic accretion so that the carrying amount equals the redemption value at the earliest available redemption date. The periodic accretion amount changes as our stock price changes and as additional dividends accrue. Based on the average closing price of our common stock over the last 30 trading days preceding December 31, 2003 of $6.19, the accretion charge, in respect to the redemption feature, for the fourth quarter of 2003 was $0.5 million. For the first quarter of 2004 the average closing price used in the accretion calculation was $7.955 and resulted in a charge of $1.8 million.

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.

Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) reached final consensuses on Issue 03-6 "Participating Securities and the Two-Class Method under FASB Statement No. 128, *Earnings per Share" (Issue 03-6).* Issue 03-6 addresses the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating earnings per share. The Company does not expect the adoption of Issue 03-6 to impact its financial condition or results of operations.

Trends, Risks and Uncertainties

This Quarterly Report on Form 10-Q includes "forward-looking statements," as that term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q are forward-looking statements, particularly statements about our plans, strategies and prospects under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Forward-looking statements are often characterized by the use of words such as "believes," "estimates," "expects," "projects," "may," "will," "intends," "plans," or "anticipates," or by discussions of strategy, plans or intentions. In this Form 10-Q, forward-looking information relates to second quarter 2004 revenues, gross margins and average selling prices, research and development expenses as a percentage of revenues, and sales and marketing expenses as a percentage of revenues, and similar matters. All forward-looking statements in this Form 10-Q are made based on our current expectations and estimates, which involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in forward-looking statements. Among these factors are changes in overall economic conditions, the cyclical nature of the semiconductor industry, changes in demand for our products, changes in inventories at our customers and distributors, technological and product development risks, availability of raw materials, competitors' actions, pricing and gross margin pressures, loss of key customers, order cancellations or reduced bookings, changes in manufacturing yields, control of costs and expenses, significant litigation, risks associated with acquisitions and dispositions, risks associated with our substantial leverage and restrictive covenants in our debt agreements, risks associated with our international operations, the threat or occurrence of international armed conflict and terrorist activities both in the United States and internationally, and risks involving environmental or other governmental regulation. Additional factors that could affect our future results or events are described from time to time in our Securities and Exchange Commission reports. See in particular our Form 10-K for the fiscal year ended December 31, 2003 under the caption "Trends, Risks and Uncertainties" and similar disclosures in subsequently filed reports with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

At April 2, 2004, our long-term debt (including current maturities) totaled $1,141.2 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $754.3 million. We do have interest rate exposure with respect to the $386.9 million outstanding balance on our variable interest rate debt; however, from time to time, we have entered into interest rate swaps and an interest rate cap to reduce this exposure. As of April 2, 2004, we had one interest rate swap covering $100.0 million of our variable interest rate debt. A 50 basis point change in interest rates would not materially change our expected interest expense for the next twelve months.

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

Item 4. 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 pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, 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.

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 in the next paragraphs, will have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

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

difference between $1 billion and the aggregate amount of those recoveries from the participating issuer defendants. If recoveries totaling $1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, we and any other participating issuer defendants will be required to assign to the class members certain claims that we may have against the underwriters of our initial public offerings.

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

Item 2. Changes in Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Pre-Approval of Non-Audit Services of PricewaterhouseCoopers LLP

As summarized below, during the period for which this Form 10-Q is filed through the date of its filing, the Audit Committee of our board of Directors ("Committee"), pre-approved certain non-audit services to be provided by our independent accountants, PricewaterhouseCoopers LLP. During a meeting on January 30, 2004, the Committee pre-approved non audit services to be performed, consisting of tax services. During a meeting on March 4, 2004, the Committee pre-approved non-audit services to be performed, consisting of audit related and tax services. During a meeting on April 26, 2004, the Committee pre-approved audit related services. During a meeting on May 4, 2004, the Committee pre-approved tax services.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits—

Exhibit No.	Description
Exhibit 4.1	Purchase Agreement dated as of March 31, 2004, ON Semiconductor Corporation, Morgan Stanley & Co. Incorporated, Credit Suisse First Boston LLC, J.P. Morgan Securities Inc., Citigroup Global Markets Inc. Lehman Brothers Inc. relating to $260,000,000 zero coupon convertible senior subordinated note due 2024
Exhibit 10.1	Waiver and Amendment dated as of March 30, 2004, to the Credit Agreement dated as of August 4, 1999, as amended and restated as of November 25, 2003, among on Semiconductor Corporation, Semiconductor Components Industries, LLC, as borrower, the lenders party thereto, and JPMorgan Chase Bank as administrative agent

Table of Contents

Exhibit No.	Description
Exhibit 31.1	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	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

(b) Reports on Form 8-K—

During the first quarter of 2004 we filed or furnished twelve reports on Form 8-K 1) dated and filed January 2, 2004, (2) dated January 2, 2004, and filed January 5, 2004, (3) dated January 2, 2003 and filed January 5, 2004, (4) dated and filed January 27, 2004, (5) dated and furnished January 27, 2004, (6) dated February 2, 2004 and furnished February 3, 2004, (7) dated and filed February 4, 2004, (8) dated February 9, 2004 and filed February 10, 2004, (9) dated March 30, 2004 and furnished March 31, 2004, (10) dated March 30, 2004, and furnished March 31, 2004, (11) dated March 30, 2004 and filed March 31, 2004, and (12) dated and filed April 1, 2004.

The January 2, 2004 report was filed pursuant to Items 5 and 7, reported on and included as exhibits audited and unaudited financial statements of certain of our subsidiaries pursuant to Rule 3-16 of Regulation S-X, which requires separate company financial statements for affiliates whose securities collateralize registered securities if certain significance tests are met, and a related consent from PricewaterhouseCoopers LLP.

The January 2, 2004 report was filed pursuant to Items 5 and 7, reported the announcement of our and our principal operating company, Semiconductor Components Industries, LLC, refinancing of approximately $48 million of term loans under our senior bank facilities with the proceeds of a new loan provided to ON Semiconductor’s joint venture in Leshan, China by the China Construction Bank, and included as an exhibit a news release dated January 2, 2004 titled “ON Semiconductor Refinances a Portion of its Bank Debt.”

The January 2, 2004 report filed pursuant to Items 5 and 7, reported the announcement of our filing of a shelf registration statement with the Securities and Exchange Commission relating to an offering, from time to time, of up to 63.3 million shares of our common stock, and included as an exhibit a news release dated January 2, 2004 titled “ON Semiconductor Files Shelf Registration Statement for Common Stock.”

The January 27, 2004 report filed pursuant to Items 5 and 7, reported the announcement of a proposed common stock offering of 47.0 million shares, including 34.0 million shares offered by us and 13.0 million shares offered by a selling stockholder, and included as an exhibit a news release dated January 27, 2004 titled “ON Semiconductor Announces Offering of Common Stock.”

The January 27, 2004 report was furnished pursuant to Item 12, provided updated revenue guidance for our fourth quarter of 2003 and commented on our first quarter 2004, and included as an exhibit a news release dated January 27, 2004 titled “ON Semiconductor Updates Financial Guidance for Fourth Quarter 2003 and Comments on First Quarter 2004.” The discussion under Item 12 of this Form 8-K and the attached exhibit were furnished to, but not filed with, the Securities and Exchange Commission.

The February 2, 2004 report was furnished pursuant to Item 12, provided results for the quarter and year ended December 31, 2003, and included as an exhibit a news release dated February 2, 2004 titled “ON Semiconductor Reports Fourth Quarter and 2003 Annual Results.” The discussion under Item 12 of this Form 8-K and the attached exhibit were furnished to, but not filed with the Securities and Exchange Commission.

The February 4, 2004 report was filed pursuant to Items 5 and 7, reported the announcement of the pricing of our common stock, and included as exhibits the underwriting agreement for the offering and a news release dated February 4, 2004 titled "ON Semiconductor Announces Pricing of Common Stock Offering."

The February 9, 2004 report was filed pursuant to items 5 and 7, and reported the announcement of the completion of our common stock offering and our call for the redemption of our senior secured notes, and included as an exhibit the news release dated February 9, 2004 titled "ON Semiconductor Announces Completion of Common Stock Offering and Calls for Redemption of Senior Secured Notes."

The March 30, 2004 report was furnished pursuant to Item 12, and provided updated revenue guidance for our first quarter of 2004 and commented on our second quarter of 2004 outlook, and included as an exhibit a news release dated March 30, 2004 titled "ON Semiconductor Raises Guidance for First Quarter 2004 and Comments on Second Quarter 2004." The discussion under Item 12 of this Form 8-K and the attached exhibit were furnished to, but not filed with, the Securities and Exchange Commission.

The March 30, 2004, report was filed pursuant to Items 5 and 7, reported the announcement of our proposed offering of convertible senior subordinated notes, and included as an exhibit the new release dated March 30, 2004 titled "ON Semiconductor Announces Proposed Offering of Convertible Senior Subordinated Notes."

The March 30, 2004 report was filed pursuant to Items 5 and 7, reported the announcement that we filed a shelf registration statement with the Securities and Exchange Commission relating to the offer, from time to time, of up to approximately 111.8 million shares of common stock by TPG Advisors II, Inc. a selling stockholder, and included as an exhibit the new release dated March 30, 2004 titled "ON Semiconductor Files Shelf Registration Statement for Common Stock."

The April 1, 2004 report was filed pursuant to Items 5 and 7, reported the announcement that we priced our zero coupon convertible notes, and included as an exhibit a news release dated April 1, 2004 titled "ON Semiconductor Prices Zero Coupon Convertible Notes."

[Table of Contents]

SIGNATURES

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

Date: May 7, 2004

ON SEMICONDUCTOR CORPORATION

By: /s/ DONALD COLVIN

Donald Colvin
Senior Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal
Financial Officer of the Registrant)

[Table of Contents](#)

EXHIBITS

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EXHIBIT 4.1

EXECUTION COPY

ON SEMICONDUCTOR CORPORATION

$260,000,000

Zero Coupon Convertible Senior Subordinated Notes due 2024

PURCHASE AGREEMENT

March 31, 2004

Morgan Stanley & Co. Incorporated
Credit Suisse First Boston LLC
J.P. Morgan Securities Inc.
Citigroup Global Markets Inc.
Lehman Brothers Inc.
c/o Morgan Stanley & Co. Incorporated
1585 Broadway
New York, New York 10036,

Credit Suisse First Boston LLC
Eleven Madison Avenue
New York, NY 10010 3629, and

J.P. Morgan Securities Inc.
270 Park Avenue
New York, NY 10017

Dear Sirs and Mesdames:

ON SEMICONDUCTOR CORPORATION, a Delaware corporation (the “**Company**”) proposes to issue and sell to the several purchasers named in Schedule I hereto (the “**Initial Purchasers**”) $260,000,000 principal amount of the Zero Coupon Convertible Senior Subordinated Notes due 2024 (the “**Firm Securities**”) to be issued pursuant to the provisions of an Indenture dated the Closing Date (as defined in Section 4) (the **“Indenture**”) among the Company, the subsidiaries of the Company listed on the signature pages hereof and Wells Fargo Bank of Minnesota, N. A., as Trustee (the “**Trustee**”). The Company also proposes to issue and sell to the several Initial Purchasers not more than an additional $30,000,000 principal amount of the Zero Coupon Convertible Senior Subordinated Notes due 2024 (the “**Additional Securities**”) if and to the extent that Morgan Stanley & Co. Incorporated (“**Morgan Stanley**”), Credit Suisse First Boston LLC and J.P. Morgan Securities Inc., as managers of the offering (the “**Managers**”), shall have determined to exercise, on behalf of the Initial Purchasers, the right to purchase such Zero Coupon Convertible Senior Subordinated Notes due 2024 granted to the Initial Purchasers in Section 2 hereof. The Firm Securities and the Additional Securities are hereinafter collectively referred to as the “**Securities**”. The Securities will be convertible into shares of common stock, $0.01 per share, of the Company (the “**Underlying Securities**”). The shares

of common stock, par value $0.01 per share, of the Company are hereinafter referred to as the "Common Stock."

The Company's obligations under the Securities, including the due and punctual payment of interest on the Securities, shall be unconditionally guaranteed (each, a "**Guarantee**" and collectively, the "**Guarantees**") on a senior subordinated basis by each of the Company's subsidiaries listed in Schedule II hereto (the "**Guarantors**").

The Securities will be offered without being registered under the Securities Act of 1933, as amended (the "**Securities Act**"), to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A under the Securities Act.

The Initial Purchasers and their direct and indirect transferees will be entitled to the benefits of a Registration Rights Agreement dated the Closing Date between the Company and the Initial Purchasers (the "**Registration Rights Agreement**").

In connection with the sale of the Securities, the Issuer has prepared a preliminary offering memorandum (the "**Preliminary Memorandum**") and will prepare a final offering memorandum (the "**Final Memorandum**" and, with the Preliminary Memorandum, each a "**Memorandum**") including or incorporating by reference a description of the terms of the Securities and the Underlying Securities, the terms of the offering and a description of the Company. As used herein, the term "Memorandum" shall include in each case the documents incorporated by reference therein. The terms "**supplement**", "**amendment**" and "**amend**" as used herein with respect to a Memorandum shall include all documents deemed to be incorporated by reference in the Preliminary Memorandum or Final Memorandum that are filed subsequent to the date of such Memorandum with the Securities and Exchange Commission (the "**Commission**") pursuant to the Securities Exchange Act of 1934, as amended (the "**Exchange Act**").

1. Representations and Warranties of the Company and the Guarantors. The Company and the Guarantors jointly and severally represent and warrant to, and agree with, the several Initial Purchasers that:

(a) (i) Each document, if any, filed or to be filed pursuant to the Exchange Act, and incorporated by reference in either Memorandum, when filed with the Commission, did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading and complied or will comply when so filed in all material respects with the Exchange Act and the applicable rules and regulations of the Commission thereunder, and (ii) the Preliminary Memorandum as of its date did not contain, and the Final Memorandum, in the form used by the Initial Purchasers to confirm sales and on the Closing Date, will not contain, any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in either Memorandum based upon information relating to any Initial Purchaser

furnished to the Company in writing by such Initial Purchaser through you expressly for use therein.

(b) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the State of Delaware, has the corporate power and authority to own its property and to conduct its business as described in the Final Memorandum and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(c) Each subsidiary of the Company has been duly incorporated or otherwise organized, is validly existing as a corporation, limited liability company or similar entity in good standing under the laws of the jurisdiction of its incorporation or formation, as the case may be, has all power and authority necessary to own its property and to conduct its business as described in the Final Memorandum and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole; all of the issued and outstanding shares of capital stock, membership interests or other equity interests of each subsidiary of the Company have been duly authorized and validly issued; are, in the case of capital stock or membership interests of subsidiaries organized under the United States, fully paid and nonassessable or, in the case of membership interests of any subsidiary of the Company that is a Delaware limited liability company, are not subject to assessment by such subsidiary of the Company for additional capital contributions; and the shares of capital stock, membership interests or other equity interests of each subsidiary owned by the Company, directly or through subsidiaries (other than (i) those shares of capital stock of Leshan-Phoenix Semiconductor Co., Ltd. that are owned by Leshan Radio Company Ltd. and Motorola (China) Investment Ltd., (ii) shares of capital stock of ON Semiconductor Czech Republic, a.s. that are owned by minority shareholders, (iii) 60% of the shares of capital stock of Amicus Realty Corporation and (iv) in the case of foreign subsidiaries, directors' qualifying shares or shares required by applicable law to be held by a person other than Semiconductor Components Industries, LLC ("**SCI LLC**"), the Company or a subsidiary thereof), are owned free from any security interest, mortgage, pledge, lien or encumbrance, or defect (collectively, "**Liens**"), except for (A) Liens described in the Final Memorandum, (B) Liens pursuant to or contemplated by the Amended and Restated Credit Agreement dated as of August 4, 1999, as amended and restated through the Closing Date, (C) the Indenture and Liens contemplated by the indenture for the Senior Secured Notes due 2008 (the "**2008 Notes Indenture**") dated as of May 6, 2002, among the Company, SCI LLC, the guarantors defined therein and Wells Fargo Bank Minnesota, National Association, as trustee or (D) the Indenture and Liens contemplated by the indenture for the Senior Secured Notes due 2010 (the "**2010 Notes Indenture**") dated as of March 3, 2003, among the Company, SCI LLC, the guarantors defined therein and Wells Fargo Bank Minnesota, National Association, as trustee (collectively, the "**Permitted Liens**").

(d) No consent, approval, authorization, or order of, or filing with, any governmental agency or body or any court is required for the consummation of the transactions contemplated by this Agreement, the Indenture, the Registration Rights Agreement or the Securities by the Company and the Guarantors, except (i) such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Securities (ii) by Federal and state securities laws with respect to the Company's obligations under the Registration Rights Agreement or (iii) where the failure to obtain such consent, approval, authorization, order or filing would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(e) Except as disclosed in the Final Memorandum, the Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all other properties and assets owned by them that is material to the business of the Company and its subsidiaries, in each case free from Liens, except Permitted Liens, that would materially and adversely affect the value thereof or materially interfere with the use made or to be made thereof by them.

(f) The Company and its subsidiaries own, possess or can acquire on reasonable terms, the trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property (collectively, "**intellectual property rights**") necessary to conduct the business now operated by them, and have not received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the Company and its subsidiaries, taken as a whole, except as described in the Final Memorandum.

(g) No labor dispute with the employees of the Company or any of its subsidiaries exists, or, to the knowledge of the Company, is imminent that would have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(h) The Company and its subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses, and neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit that, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(i) The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance, in all material respects, that (1) transactions are executed in accordance with management's general or specific authorizations; (2) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; and (3) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(j) PricewaterhouseCoopers LLP are independent certified public accountants with respect to the Company as required by the Securities Act and the rules and regulations of the Commission thereunder.

(k) This Agreement has been duly authorized, executed and delivered by the Company and each of the Guarantors.

(l) The authorized capital stock of the Company conforms to the description thereof contained in the Final Memorandum.

(m) The shares of Common Stock outstanding prior to the issuance of the Securities have been duly authorized and are validly issued, fully paid and non-assessable.

(n) The Securities and the Guarantees have been duly authorized by the Company and the Guarantors, respectively, and, when executed and authenticated in accordance with the provisions of the Indenture and delivered to and paid for by the Initial Purchasers in accordance with the terms of this Agreement, will be valid and binding obligations of the Company and each of the Guarantors, as the case may be, enforceable in accordance with their terms, subject to the effects of applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and equitable principles of general applicability, and will be entitled to the benefits of the Indenture and the Registration Rights Agreement.

(o) The Underlying Securities issuable upon conversion of the Securities have been duly authorized and reserved and, when issued upon conversion of the Securities in accordance with the terms of the Securities, will be validly issued, fully paid and non-assessable, and the issuance of the Underlying Securities will not be subject to any preemptive or similar rights.

(p) Each of the Indenture, the Registration Rights Agreement and the Escrow Agreement has been duly authorized, and when executed and delivered by the Company and each of the Guarantors, will be a valid and binding agreement of the Company and each of the Guarantors, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally and general principles of equity and except as rights to indemnification and contribution under the Registration Rights Agreement may be limited under applicable law.

(q) The execution and delivery by the Company and the Guarantors of, and the performance by the Company and the Guarantors of their obligations under, this Agreement, the Indenture, the Registration Rights Agreement and the Securities, as applicable, (i) will not violate any provision of or the charter or by-laws or limited liability company agreement, as the case may be, of the Company or any Guarantor, (ii) will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any statute, any rule, regulation or order of any governmental agency or body or any court, domestic or foreign, having jurisdiction over the Company or any subsidiary of the Company or any of their properties, or, to the extent not included in subclause (iii) of this paragraph, any agreement or instrument to which the Company or any other such subsidiary is a party or by which the Company or any other such subsidiary is bound or to which any of the properties

of the Company or any subsidiary is subject except in each case set forth in this clause (ii) for such breaches, violations or defaults that would not reasonably be expected to have a material adverse effect on the Company and its subsidiaries, taken as a whole, and (iii) will not result in a breach or violation of any of the terms and provisions of, or constitute a default under any agreement or instrument governing material indebtedness of the Company or subsidiary of the Company.

(r) No "nationally recognized statistical rating organization" as such term is defined for purposes of Rule 436(g)(2) under the Securities Act (i) has imposed (or has informed the Company that it is considering imposing) any condition (financial or otherwise) on the Company's, retaining any rating assigned to the Company, or any securities of the Company, or (ii) has given notice to the Company that it is considering (A) the downgrading, suspension, or withdrawal of, or any review for a possible change that does not indicate the direction of the possible change in, any rating so assigned or (B) any change in the outlook for any rating of Company or any securities of the Company.

(s) The financial statements included in the Final Memorandum present fairly the financial position of the Company and its consolidated subsidiaries as of the dates shown and their results of operations and cash flows for the periods shown and, except as disclosed in the Final Memorandum, such financial statements have been prepared in conformity with the generally accepted accounting principles in the United States applied on a consistent basis.

(t) Except as disclosed in the Final Memorandum, since the date of the latest audited financial statements included in the Final Memorandum, there has been no material adverse change, or any development involving a prospective material adverse change, in the condition (financial or otherwise) or in the earnings, business or operations of the Company and its subsidiaries taken as a whole, and, except as disclosed in or contemplated by the Final Memorandum, there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(u) Except as disclosed in the Final Memorandum, there is no pending action, suit or proceeding against or affecting the Company, any of its subsidiaries or any of their respective properties that, individually or in the aggregate, is reasonably likely to result in a material adverse effect on the Company and its subsidiaries, taken as a whole, or would materially and adversely affect the ability of the Company and the Guarantors to perform their obligations under this Agreement, the Indenture, the Registration Rights Agreement or the Securities, as applicable, or to consummate the transactions contemplated by the Final Memorandum; and, to the Company's knowledge, there is no such action, suit or proceeding threatened.

(v) Neither the Company nor any of its subsidiaries is an open-end investment company, unit investment trust or face-amount certificate company that is or is required to be registered under Section 8 of the United States Investment Company Act of 1940 (the "**Investment Company Act**"); and neither the Company nor any of its subsidiaries is and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Final Memorandum, will be an "investment company" as defined in the Investment Company Act.

(w) Except as disclosed in the Final Memorandum or except as would, singly and in the aggregate, not have a material adverse effect on the Company and its subsidiaries, taken as a whole, the Company and its subsidiaries (1) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("**Environmental Laws"**), (2) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (3) are in compliance with all terms and conditions of any such permit, license or approval.

(x) Except as disclosed in the Final Memorandum, there are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties) that would, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(y) Neither the Company nor any of its subsidiaries is in violation of its respective charter or by-laws or in default in the performance of any obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, lease or other agreement or instrument, except for such defaults that, singularly or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company and its subsidiaries, taken as a whole, to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or their respective property is bound.

(z) None of the Company or any affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act, an "**Affiliate**") of the Company has directly, or through any agent, (i) sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any security (as defined in the Securities Act) which is or will be integrated with the sale of the Securities in a manner that would require the registration under the Securities Act of the Securities or (ii) offered, solicited offers to buy or sold the Securities by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act.

(aa) Assuming the Securities are issued, sold and delivered under the circumstances contemplated by the Final Memorandum and the accuracy of, and Initial Purchasers' compliance with, the representations, warranties and agreements of the Initial Purchasers set forth in Section 7 of this Agreement, it is not necessary in connection with the offer, sale and delivery of the Securities to the Initial Purchasers in the manner contemplated by this Agreement to register the Securities under the Securities Act or to qualify the Indenture under the Trust Indenture Act of 1939, as amended.

(bb) The Securities satisfy the requirements set forth in Rule 144A(d)(3) under the Securities Act.

2. Agreements to Sell and Purchase. The Company agrees to sell to the several Initial Purchasers, and each Initial Purchaser, upon the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, agrees, severally and not jointly, to purchase from the Company the respective amount of Firm Securities set forth in Schedule I hereto opposite its name at a purchase price of 97% of the principal amount thereof (the "**Purchase Price**").

On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Company agrees to sell to the Initial Purchasers the Additional Securities, and the Initial Purchasers shall have the right to purchase, severally and not jointly, up to $30,000,000 principal amount of Additional Securities at the Purchase Price. You may exercise this right on behalf of the Initial Purchasers in whole or from time to time in part by giving written notice of each election to exercise this option not later than 30 days after the date of this Agreement. Any exercise notice shall specify the principal amount of Additional Securities to be purchased by the Initial Purchasers and the date on which such Additional Securities are to be purchased. Each purchase date must be at least one business day after the written notice is given and may not be earlier than the Closing Date for the Firm Securities nor later than ten business days after the date of such notice. Should such date be subsequent to the Closing Date, Morgan Stanley shall provide such notice no later than three days prior to such date. If any Additional Securities are to be purchased, each Initial Purchaser agrees, severally and not jointly, to purchase the principal amount of Additional Securities (subject to such adjustments to eliminate fractional Securities as you may determine) that bears the same proportion to the total principal amount of Additional Securities to be purchased as the principal amount of Firm Securities set forth in Schedule I hereto opposite the name of such Initial Purchaser bears to the total principal amount of Firm Securities.

The Company hereby agrees that, without the prior written consent of the Managers on behalf of the Initial Purchasers, it will not, during the period ending 60 days after the date of the Final Memorandum, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the sale and issuance of the Securities under this Agreement, (B) the issuance of Underlying Securities upon conversion of the Securities in accordance with their terms, (C) the issuance by the Company of any shares of Common Stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof, or in the case of an option granted after the date hereof, pursuant to existing employee benefit plans of the Company or any of its subsidiaries, of which the Initial Purchasers have been advised in writing, (D) the granting by the Company of any options to purchase shares of Common Stock or any restricted stock units or the sale by the Company of any shares of Common Stock, in each case pursuant to any existing employee benefit plan or direct stock plan of the

Company or any of its subsidiaries, (E) the issuance by the Company of any shares of Common Stock in connection with the acquisition of or merger with or into any other company or the acquisition of any assets, (F) the sale of Common Stock on or after May 4, 2004 by directors or executive officers under existing plans or agreements meeting the requirements of Rule 10b5-1 under the Exchange Act for the pre-arranged sale of shares of Common Stock or (G) the sale of Common Stock by TPG Semiconductor Holdings LLC ("**TPG Holdings**") or TPG ON Holdings LLC, *provided* that this exception shall not affect the applicability of any sales restrictions pursuant to (i) the Underwriting Agreement dated February 3, 2004 among the Company, TPG Holdings and the Underwriters as defined therein (the "**February Underwriting Agreement**") or (ii) any lock-up agreement executed pursuant to the February Underwriting Agreement; *provided* that in the case of any issuance, transfer or disposition pursuant to clause (E), (i) each recipient of such shares shall agree in writing, for the benefit of the Managers on behalf of the Initial Purchasers, that such shares shall remain subject to restrictions identical to those contained in the first sentence of this paragraph for the remainder of the period for which the Company is bound thereunder, and each such recipient shall execute and deliver to the Managers a duplicate of such writing, and (ii) if a filing by any party to such issuance, transfer or disposition (issuer, transferor, disposer, recipient or transferee) under Section 16(a) of the Exchange Act shall be required in connection with such issuance, transfer or disposition (other than a filing on a Form 5 made after the expiration of the 60-day period referred to above), such party shall provide the Managers no less than seven days prior written notice of such filing (it being understood that no such filing shall be made by any such party if not required to be made under the Exchange Act).

3. Terms of Offering. You have advised the Company that the Initial Purchasers will make an offering of the Securities purchased by the Initial Purchasers hereunder on the terms to be set forth in the Final Memorandum, as soon as practicable after this Agreement is entered into as in your judgment is advisable.

4. Payment and Delivery. Payment for the Firm Securities shall be made to the Company in Federal or other funds immediately available at the offices of Cleary, Gottlieb, Steen & Hamilton in New York City against delivery of such Firm Securities for the respective accounts of the several Initial Purchasers at 10:00 a.m., New York City time, on April 6, 2004, or at such other time on the same or such other date, not later than April 13, 2004, as shall be designated in writing by you. The time and date of such payment are hereinafter referred to as the "**Closing Date**".

Payment for any Additional Securities shall be made to the Company in Federal or other funds immediately available in New York City against delivery of such Additional Securities for the respective accounts of the several Initial Purchasers at 10:00 a.m., New York City time, on the date specified in the corresponding notice described in Section 2 or at such other time on the same or on such other date, in any event not later than 30 days after the Closing Date, as shall be designated in writing by you. The time and date of such payment are hereinafter referred to as the "**Option Closing Date**".

The Securities shall be in definitive form or global form, as specified by you, and registered in such names and in such denominations as you shall request in writing not

later than one full business day prior to the Closing Date or the Option Closing Date, as the case may be. The Securities shall be delivered to you on the Closing Date or the Option Closing Date, as the case may be, for the respective accounts of the several Initial Purchasers, with any transfer taxes payable in connection with the transfer of the Securities to the Initial Purchasers duly paid, against payment of the Purchase Price therefor.

5. Conditions to the Initial Purchasers' Obligations. The several obligations of the Initial Purchasers to purchase and pay for the Firm Securities on the Closing Date are subject to the following conditions:

(a) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date:

(i) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the Company's securities by any "nationally recognized statistical rating organization," as such term is defined for purposes of Rule 436(g)(2) under the Securities Act; and

(ii) there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Final Memorandum that, in your judgment, is material and adverse and that makes it, in your judgment, impracticable to market the Securities on the terms and in the manner contemplated in the Final Memorandum.

(b) The Initial Purchasers shall have received on the Closing Date a certificate, dated the Closing Date and signed by Keith D. Jackson, as chief executive officer, and Donald Colvin, as chief financial officer, to the effect set forth in Section 5(a)(i) above and to the effect that the representations and warranties of the Company and each of the Guarantors contained in this Agreement are true and correct as of the Closing Date and that the Company and each of the Guarantors has complied with all of the agreements and satisfied all conditions on its part to be performed or satisfied hereunder on or before the Closing Date.

The officers signing and delivering such certificate may rely upon the best of his or her knowledge as to proceedings threatened.

(c) The Initial Purchasers shall have received on the Closing Date from George H. Cave, General Counsel of the Company, dated the Closing Date, an opinion in form and substance reasonably satisfactory to the Underwriters.

(d) The Initial Purchasers shall have received on the Closing Date from Cleary, Gottlieb, Steen & Hamilton, special counsel to the Company and the Guarantors, dated the Closing Date, an opinion in form and substance reasonably satisfactory to the Initial Purchasers.

(e) The Initial Purchasers shall have received on the Closing Date an opinion of Cravath, Swaine & Moore LLP, counsel for the Initial Purchasers, dated the Closing Date, in form and substance reasonably satisfactory to the Initial Purchasers.

(f) The Initial Purchasers shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, as the case may be, in form and substance satisfactory to the Initial Purchasers, from PricewaterhouseCoopers LLP, independent certified public accountants, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in or incorporated by reference into each Memorandum, and only if permitted, by Statement of Auditing Standard No. 72; *provided* that the letter delivered on the Closing Date shall use a "cut-off date" not earlier than the date hereof.

(g) The "lock up" agreements, each substantially in the form of Exhibit A hereto, between you and the directors and executive officers of the Company, relating to sales and certain other dispositions of shares of Common Stock or certain other securities, delivered to you on or before the date hereof, shall be in full force and effect on the Closing Date.

(h) The Company shall have filed a "Notification Form: Listing of Additional Shares" and any required supporting documentation relating to the Underlying Securities with the NASDAQ Stock Market.

The several obligations of the Initial Purchasers to purchase Additional Securities hereunder are subject to the delivery to you on the Option Closing Date of such documents as you may reasonably request with respect to the good standing of the Company, the due authorization, execution and authentication of the Additional Securities to be sold on the Option Closing Date and other matters related to the execution and authentication of such Additional Securities.

6. Covenants of the Company and Guarantors. In further consideration of the agreements of the Initial Purchasers herein contained, the Company and Guarantors jointly and severally covenant with each Initial Purchaser as follows:

(a) To furnish to you in New York City, without charge, prior to 10:00 a.m. New York City time on the business day next succeeding the date of this Agreement and during the period mentioned in Section 6(c), as many copies of the Final Memorandum, any documents incorporated by reference therein and any supplements and amendments thereto as you may reasonably request.

(b) Before amending or supplementing either Memorandum, to furnish to you a copy of each such proposed amendment or supplement and not to use any such proposed amendment or supplement to which you reasonably object.

(c) If, during such period after the date hereof and prior to the date on which all of the Securities shall have been sold by the Initial Purchasers, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Final

Memorandum in order to make the statements therein, in the light of the circumstances when the Final Memorandum is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Initial Purchasers, it is necessary to amend or supplement the Final Memorandum to comply with applicable law, forthwith to prepare and furnish, at its own expense, to the Initial Purchasers, either amendments or supplements to the Final Memorandum so that the statements in the Final Memorandum as so amended or supplemented will not, in the light of the circumstances when the Final Memorandum is delivered to a purchaser, be misleading or so that the Final Memorandum, as amended or supplemented, will comply with applicable law; *provided*, that in the event the Company is required to amend or supplement the Final Memorandum pursuant to this Section 6(c) after nine months from the date hereof, any costs incurred by the Company relating to such supplement or amendment shall be borne by the Initial Purchasers.

(d) To endeavor to qualify the Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions as you shall reasonably request; *provided* that neither the Company nor any of its subsidiaries shall be obligated to qualify as foreign corporations in any jurisdiction in which it is not so qualified or to file a general consent to service of process in any jurisdiction.

(e) Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, to pay or cause to be paid all expenses incident to the performance of the Company's obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company's counsel and the Company's accountants in connection with the issuance and sale of the Securities and all other fees or expenses in connection with the preparation of each Memorandum and all amendments and supplements thereto, including all printing costs associated therewith, and the delivering of copies thereof to the Initial Purchasers, in the quantities herein above specified, (ii) all costs and expenses related to the transfer and delivery of the Securities to the Initial Purchasers, including any transfer or other taxes payable thereon, (iii) the cost of printing or producing any Blue Sky or legal investment memorandum in connection with the offer and sale of the Securities under state securities laws and all expenses in connection with the qualification of the Securities for offer and sale under state securities laws as provided in Section 6(d) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Initial Purchasers in connection with such qualification and in connection with the Blue Sky or legal investment memorandum, (iv) any fees charged by rating agencies for the rating of the Securities, (v) the fees and expenses, if any, incurred in connection with the admission of the Securities for trading in PORTAL or any appropriate market system, (vi) the costs and charges of the Trustee and any transfer agent, registrar or depositary, (vii) the cost of the preparation, issuance and delivery of the Securities, (viii) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the offering of the Securities, including, without limitation, expenses associated with the production of road show slides and graphics, fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Company, costs and expenses associated with any conference rooms or presentation facilities used in connection with the road show presentations and travel and lodging expenses of the representatives and officers of the Company and any such consultants, and

(ix) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section; *provided*, *however*, that the Initial Purchasers shall pay their own costs and expenses associated with lodging and *provided*, *further*, that the Initial Purchasers and the Company shall each pay 50% of the costs of any limousine used or any aircraft chartered in connection with the "road show". It is understood, however, that except as provided in this Section, Section 8 entitled "Indemnity and Contribution" and the last paragraph of Section 10, the Initial Purchasers will pay all of their costs and expenses, including fees and disbursements of their counsel, transfer taxes payable on resale of any of the Securities by them and any advertising expenses connected with any offers they may make.

The provisions of this Section shall not supersede or otherwise affect any agreement that the Initial Purchasers may otherwise have for the allocation of such expenses among themselves.

(f) To not offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in the Securities Act) which could be integrated with the sale of the Securities in a manner which would require the registration under the Securities Act of the Securities.

(g) To not solicit any offer to buy or offer or sell the Securities or the Underlying Securities by means of any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act.

(h) While any of the Securities or the Underlying Securities remain "restricted securities" within the meaning of the Securities Act, to make available, upon request, to any seller of such Securities the information specified in Rule 144A(d)(4) under the Securities Act, unless the Company is then subject to Section 13 or 15(d) of the Exchange Act.

(i) To use its reasonable best efforts to permit the Securities to be designated PORTAL securities in accordance with the rules and regulations adopted by the National Association of Securities Dealers, Inc. relating to trading in the PORTAL Market.

(j) During the period of two years after the Closing Date or any Option Closing Date, if later, to not resell or permit any of its affiliates (as defined in Rule 144 under the Securities Act) to resell any of the Securities or the Underlying Securities which constitute "restricted securities" under Rule 144 that have been reacquired by any of them.

(k) To reserve and keep available at all times, free of preemptive rights, shares of common stock for the purpose of enabling the Company to satisfy any obligations to issue shares of common stock upon conversion of the Securities.

7. Offering of Securities; Restrictions on Transfer. Each Initial Purchaser, severally and not jointly, represents and warrants that such Initial Purchaser is a qualified institutional buyer as defined in Rule 144A under the Securities Act (a "**QIB**"). Each Initial Purchaser, severally and not jointly, agrees with the Company that (i) it will not solicit offers

for, or offer or sell, such Securities by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act and (ii) it will solicit offers for such Securities only from, and will offer such Securities only to, persons that it reasonably believes to be QIBs that in purchasing such Securities are deemed to have represented and agreed as provided in the Final Memorandum under the caption "Transfer Restrictions", and it has taken or will take reasonable steps to ensure that the purchaser of such Securities are aware that such sale is being made in reliance on Rule 144A.

8. Indemnity and Contribution. (a) Each of the Company and the Guarantors jointly and severally agree to indemnify and hold harmless each Initial Purchaser, each person, if any, who controls any Initial Purchaser within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, and each affiliate of any Initial Purchaser within the meaning of Rule 405 under the Securities Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in either Memorandum (as amended or supplemented, if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein in the light of the circumstances under which they were made not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Initial Purchaser furnished to the Company in writing by such Initial Purchaser through you expressly for use therein; *provided, however*, that the foregoing indemnity agreement with respect to any Preliminary Memorandum shall not inure to the benefit of any Initial Purchaser or any person who controls any Initial Purchaser within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from whom the person asserting any such losses, claims, damages or liabilities purchased Securities, if a copy of the Final Memorandum was furnished by the Company to such Initial Purchaser but was not sent or given by or on behalf of such Initial Purchaser to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of such Securities to such person, and if the Final Memorandum would have cured the defect giving rise to such loss, claim, damage or liability, unless such failure is the result of noncompliance by the Company with Section 6(a) hereof.

(b) Each Initial Purchaser agrees, severally and not jointly, to indemnify and hold harmless the Company, the Guarantors, the directors and officers of the Company, the directors and officers of the Guarantors and each person, if any, who controls the Company or the Guarantors within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company or the Guarantors, as the case may be, to such Initial Purchaser, but only with reference to information relating to such Initial Purchaser furnished to the Company in writing by such Initial Purchaser through you expressly for use in either Memorandum or any amendments or supplements thereto.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 8(a) or 8(b), such person (the "**indemnified party**") shall promptly notify the person against whom such indemnity may be sought (the "**indemnifying party**") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all indemnified parties and that all such fees and expenses shall be reimbursed as they are incurred. Such firm shall be designated in writing by Morgan Stanley, in the case of parties indemnified pursuant to Section 8(a), and by the Company, in the case of parties indemnified pursuant to Section 8(b). The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second and third sentences of this paragraph, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 60 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) To the extent the indemnification provided for in Section 8(a) or 8(b) is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under such Section in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party or parties on the other hand from the offering of the Securities or (ii) if the allocation provided by clause

8(d)(i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause 8(d)(i) above but also the relative fault of the indemnifying party or parties on the one hand and of the indemnified party or parties on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the Company and Guarantors on the one hand and the Initial Purchasers on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and Guarantors or by the Initial Purchasers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Initial Purchasers' respective obligations to contribute pursuant to this Section 8 are several in proportion to the respective principal amount of Securities they have purchased hereunder, and not joint.

(e) The Company and Guarantors and the Initial Purchasers agree that it would not be just or equitable if contribution pursuant to this Section 8 were determined by *pro rata* allocation (even if the Initial Purchasers were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in Section 8(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8, no Initial Purchaser shall be required to contribute any amount in excess of the amount by which the total price at which the Securities resold by it in the initial placement of such Securities were offered to investors exceeds the amount of any damages that such Initial Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 8 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

(f) The indemnity and contribution provisions contained in this Section 8 and the representations, warranties and other statements of the Company and the Guarantors contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Initial Purchaser, any person controlling any Initial Purchaser or any affiliate of any Initial Purchaser, by or on behalf of the Company, its officers or directors or any person controlling the Company or by and on behalf of the Guarantors, their officers or directors or any person controlling the Guarantors and (iii) acceptance of and payment for any of the Securities.

9. Termination. The Initial Purchasers may terminate this Agreement by notice given by you to the Company, if, after the execution and delivery of this Agreement and prior to the Closing Date, (i) trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the New York Stock Exchange, the American Stock

Exchange, the Nasdaq National Market, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market, (iii) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred, (iv) any moratorium on commercial banking activities shall have been declared by Federal or New York State authorities or (v) there shall have occurred any outbreak or escalation of hostilities, or any change in financial markets or any calamity or crisis that, in your judgment, is material and adverse and that, singly or together with any other event specified in this clause (v), makes it, in your judgment, impracticable to proceed with the offer, sale or delivery of the Securities on the terms and in the manner contemplated in the Final Memorandum.

10. Effectiveness; Defaulting Initial Purchasers. This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

If, on the Closing Date, or the Option Closing Date, as the case may be, any one or more of the Initial Purchasers shall fail or refuse to purchase Securities that it or they have agreed to purchase hereunder on such date, and the aggregate principal amount of Securities which such defaulting Initial Purchaser or Initial Purchasers agreed but failed or refused to purchase is not more than one-tenth of the aggregate principal amount of Securities to be purchased on such date, the other Initial Purchasers shall be obligated severally in the proportions that the principal amount of Firm Securities set forth opposite their respective names in Schedule I bears to the aggregate principal amount of Firm Securities set forth opposite the names of all such non-defaulting Initial Purchasers, or in such other proportions as you may specify, to purchase the Securities which such defaulting Initial Purchaser or Initial Purchasers agreed but failed or refused to purchase on such date; *provided* that in no event shall the principal amount of Securities that any Initial Purchaser has agreed to purchase pursuant to this Agreement be increased pursuant to this Section 10 by an amount in excess of one-ninth of such principal amount of Securities without the written consent of such Initial Purchaser. If, on the Closing Date any Initial Purchaser or Initial Purchasers shall fail or refuse to purchase Firm Securities which it or they have agreed to purchase hereunder on such date and the aggregate principal amount of Securities with respect to which such default occurs is more than one-tenth of the aggregate principal amount of Firm Securities to be purchased on such date, and arrangements satisfactory to you, the Company for the purchase of such Firm Securities are not made within 36 hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Initial Purchaser, the Company. In any such case either you or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Final Memorandum or in any other documents or arrangements may be effected. If, on the Option Closing Date, any Initial Purchaser or Initial Purchasers shall fail or refuse to purchase Additional Securities and the aggregate principal amount of Additional Securities with respect to which such default occurs is more than one-tenth of the aggregate principal amount of Additional Securities to be purchased on the Option Closing Date, the non-defaulting Initial Purchasers shall have the option to (a) terminate their obligation hereunder to purchase the Additional Securities to be sold on the Option Closing Date or (b) purchase not less than the principal amount of Additional

Securities that such non-defaulting Initial Purchasers would have been obligated to purchase in the absence of such default. Any action taken under this paragraph shall not relieve any defaulting Initial Purchaser from liability in respect of any default of such Initial Purchaser under this Agreement.

If this Agreement shall be terminated by the Initial Purchasers, or any of them, because of any failure or refusal on the part of the Company or any Guarantor to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company or any Guarantor shall be unable to perform its obligations under this Agreement, the Company will reimburse the Initial Purchasers or such Initial Purchasers as have so terminated this Agreement with respect to themselves, severally, for all documented out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by such Initial Purchasers in connection with this Agreement or the offering contemplated hereunder.

11. Counterparts. This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile shall be effective as delivery of a manually executed counterpart of this Agreement.

12. Applicable Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York.

13. Headings. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

Very truly yours,

ON SEMICONDUCTOR CORPORATION

By /s/ KEITH JACKSON

Name: **Keith Jackson**
Title: **President & CEO**

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC

By /s/ KEITH JACKSON

Name: **Keith Jackson**
Title: **President & CEO**

SCG (MALAYSIA SMP) HOLDING CORPORATION

By /s/ DONALD COLVIN

Name: **Donald Colvin**
Title: **Sr. Vice President, CFO & Treasurer**

SCG (CZECH) HOLDING CORPORATION

By /s/ DONALD COLVIN

Name: **Donald Colvin**
Title: **Sr. Vice President, CFO & Treasurer**

SCG (CHINA) HOLDING CORPORATION

By /s/ DONALD COLVIN

Name: **Donald Colvin**
Title: **Sr. Vice President, CFO & Treasurer**

SEMICONDUCTOR COMPONENTS INDUSTRIES PUERTO RICO, INC.

By /s/ DONALD COLVIN

Name: **Donald Colvin**
Title: **Sr. Vice President, CFO & Treasurer**

SEMICONDUCTOR COMPONENTS INDUSTRIES OF RHODE ISLAND, INC.

By /s/ DONALD COLVIN

Name: **Donald Colvin**
Title: **Sr. Vice President, CFO & Treasurer**

SCG INTERNATIONAL DEVELOPMENT LLC

By /s/ DONALD COLVIN

Name: **Donald Colvin**
Title: **Sr. Vice President, CFO & Treasurer**

SEMICONDUCTOR COMPONENTS INDUSTRIES INTERNATIONAL OF RHODE ISLAND, INC.

By /s/ DONALD COLVIN

Name: **Donald Colvin**
Title: **Sr. Vice President, CFO & Treasurer**

Accepted as of the date hereof

MORGAN STANLEY & CO. INCORPORATED Acting severally on behalf of itself and the several Initial Purchasers named in Schedule I hereto,

By /s/ NATHAN MCMURTRAY

Name: **Nathan McMurtray**
Title: **Vice President**

Accepted as of the date hereof

CREDIT SUISSE FIRST BOSTON LLC
Acting severally on behalf of itself and the several Initial Purchasers named in Schedule I hereto,

By /s/ JOHN HODGE

Name: **John Hodge**
Title: **Managing Director**

Accepted as of the date hereof

J. P. MORGAN SECURITIES INC.
Acting severally on behalf of itself and the several Initial Purchasers named in Schedule I hereto,

By /s/ KEVIN KULAK

Name: **Kevin Kulak**
Title: **Vice President**

Schedule I

Initial Purchaser	Principal Amount of Firm Securities to be Purchased
Morgan Stanley & Co. Incorporated	$ 69,334,000
Credit Suisse First Boston LLC	$ 69,333,000
J.P. Morgan Securities Inc.	$ 69,333,000
Citigroup Global Markets Inc.	$ 26,000,000
Lehman Brothers Inc.	$ 26,000,000
Total	$ 260,000,000

Schedule II

Guarantors

Semiconductor Components Industries, LLC
SCG (Malaysia SMP) Holding Corporation
SCG (Czech) Holding Corporation
SCG (China) Holding Corporation
Semiconductor Components Industries Puerto Rico, Inc.
Semiconductor Components Industries of Rhode Island, Inc.
SCG International Development LLC
Semiconductor Components Industries International of Rhode Island, Inc.

EXHIBIT A

[Form of Lock-up Agreement]

__________, 2004

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, NY 10036,
Credit Suisse First Boston LLC
Eleven Madison Avenue
New York, NY 10010 3629, and
J.P. Morgan Securities Inc.
270 Park Avenue
New York, NY 10017

Dear Sirs and Mesdames:

The undersigned understands that Morgan Stanley & Co. Incorporated (“**Morgan Stanley**”), Credit Suisse First Boston LLC (“**CFSB**”) and J.P. Morgan Securities Inc. (“**JPM**”, and together with Morgan Stanley and CSFB, the “**Managers**”) proposes to enter into a Purchase Agreement (the “**Purchase Agreement**”) with ON Semiconductor Corporation, a Delaware corporation (the “**Company**”) and the guarantors listed on Schedule II thereto (the “**Guarantors**”), providing for the offering (the “**Offering**”) by the several Initial Purchasers, including the Managers (the “**Initial Purchasers**”), of Zero Coupon Convertible Senior Subordinated Notes due 2024 of the Company (the “**Securities**”). The Securities will be convertible into shares of common stock, par value $0.01 per share, of the Company (the “**Common Stock**”).

To induce the Initial Purchasers that may participate in the Offering to continue their efforts in connection with the Offering, the undersigned hereby agrees that, without the prior written consent of the Managers on behalf of the Initial Purchasers, it will not, during the period commencing on the date hereof and ending 60 days after the date of the final offering memorandum relating to the Offering (the “**Final Memorandum**”), (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (a) transactions relating to shares of Common Stock or other securities acquired in open market transactions after the completion of the Offering, (b) transfers of shares of Common Stock or any security convertible into Common Stock as a bona fide gift or gifts, (c) transfers and dispositions between or among the undersigned, any of its affiliates and any partners, shareholders or members of any of the foregoing (d) the sale of shares of Common Stock on or after May 4, 2004 by directors or

executive officers under existing plans or agreements entered into that establish plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), for the pre-arranged sale of shares of Common Stock or (e) the sale of shares of Common Stock by TPG Semiconductor Holdings LLC ("**TPG Holdings**") or TPG ON Holdings LLC, *provided* that this exception shall not affect the applicability of any sales restrictions pursuant to (i) the Underwriting Agreement dated February 3, 2004 among the Company, TPG Holdings and the Underwriters as defined therein (the "**February Underwriting Agreement**") or (ii) any lock-up agreement executed pursuant to the February Underwriting Agreement; *provided*, that in the case of any transfer, distribution or disposition pursuant to clause (b) or (c), (i) each donee, distributee or disposition recipient shall execute and deliver to the Managers a duplicate form of this Lock-up Letter and (ii) if a filing by any party (donor, donee, transferor, transferee, disposer or disposition recipient) under Section 16(a) of the Exchange Act, shall be required in connection with such transfer, distribution or disposition (other than a filing on a Form 5 made after the expiration of the 60-day period referred to above), such party shall provide the Managers no less than one day prior notice of such filing (it being understood that no such filing shall be made by any such party if not required to be made under the Exchange Act). In addition, the undersigned agrees that, without the prior written consent of the Managers on behalf of the Initial Purchasers, it will not, during the period commencing on the date hereof and ending 60 days after the date of the Final Memorandum, make any demand for or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

Whether or not the Offering actually occurs depends on a number of factors, including market conditions. Any Offering will only be made pursuant to a Purchase Agreement, the terms of which are subject to negotiation between the Company, the Guarantors and the Initial Purchasers.

Delivery of an executed signature page to this letter by facsimile shall be effective as delivery of a manually executed signature page of this letter.

Very truly yours,

____

(Name)

____

(Address)

Exhibit 10.1

WAIVER AND AMENDMENT (this "Amendment") dated as of March 30, 2004 to the Credit Agreement dated as of August 4, 1999, as amended and restated as of November 25, 2003 (as amended, supplemented or otherwise modified from time to time prior to the date hereof, the "Credit Agreement"), among ON SEMICONDUCTOR CORPORATION (formerly known as SCG HOLDING CORPORATION, "Holdings"), SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC (the "Borrower"), the LENDERS party thereto, and JPMORGAN CHASE BANK (formerly known as The Chase Manhattan Bank), as administrative agent.

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

B. Holdings and the Borrower have requested that the Lenders agree to (a) waive the provisions of the Credit Agreement with respect to the prepayment of Tranche E Term Loans with 50% of the Net Proceeds of the issuance of certain Equity Interests by Holdings or Permitted Convertible Debt and (b) amend certain provisions of the Credit Agreement to (i) permit the Borrower to purchase, redeem and retire a portion of the First Lien Notes, the Second Lien Notes and the Subordinated Debt with the proceeds of such Equity Interests or Permitted Convertible Debt and (ii) permit the Borrower to incur Indebtedness for the purpose of refinancing First Lien Notes, Second Lien Notes and Subordinated Debt.

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

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

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

SECTION 1. Amendments to Section 1.01. Section 1.01 of the Credit Agreement is amended by adding the following defined terms in the appropriate alphabetical order:

"Permitted Refinancing Indebtedness" means Indebtedness of the Borrower incurred to refinance all or any portion of the First Lien Notes, the Second Lien Notes or the Subordinated Debt; provided that:

(a) such refinancing Indebtedness matures no earlier than, and does not require any scheduled principal payments prior to, the scheduled maturity date of the Indebtedness being refinanced;

(b) such refinancing Indebtedness is issued in a capital market transaction;

(c) the principal amount of such refinancing Indebtedness does not exceed the principal amount of the Indebtedness being refinanced plus the amount of any applicable redemption premiums and any fees (other than fees payable to Affiliates) and expenses incurred in connection with the issuance of such refinancing Indebtedness;

(d) the Indebtedness being refinanced is redeemed, repaid or repurchased during the Refinancing Period, and is thereupon canceled and retired, provided that the proceeds of such refinancing Indebtedness may, at the Borrower's option, be used to prepay Tranche E Term Loans;

(e) if the Indebtedness being refinanced is not redeemed, repaid or repurchased on the date that such refinancing Indebtedness is incurred, then the proceeds of such refinancing Indebtedness shall be segregated and held pursuant to an arrangement reasonably satisfactory to the Administrative Agent to ensure that such proceeds are so applied during the Refinancing Period;

(f) at the time of and after giving effect to the incurrence of such refinancing Indebtedness, no Default has occurred and is continuing, and the incurrence of such refinancing Indebtedness and the refinancing of the Indebtedness being refinanced is permitted by the terms of all other Indebtedness of the Borrower and its Subsidiaries (including the First Lien Notes, the Second Lien Notes and the Subordinated Debt);

(g) the Administrative Agent is reasonably satisfied that the terms of such refinancing Indebtedness are no more restrictive in any material respect, or adverse to the interests of the Lenders in any material respect, than the terms of the Indebtedness being refinanced;

(h) such refinancing Indebtedness is no more senior than the Indebtedness being refinanced, it being understood that (i) in the case of a refinancing of First Lien Notes or Second Lien Notes, such refinancing Indebtedness may share in the Collateral securing the Obligations on the same basis as the Second Lien Notes subject to intercreditor arrangements that, in the reasonable judgment of the Administrative Agent, are no less favorable to the Lenders than those applicable to the Second Lien Notes, (ii) except as provided in clause (i) above, such refinancing Indebtedness shall be unsecured and (iii) in the case of a refinancing of Subordinated Debt, such refinancing Indebtedness shall be subordinated to the Obligations on terms no less favorable to the Lenders than the terms of the Subordinated Debt; and

(i) if such refinancing Indebtedness is Guaranteed by any Subsidiary, such Subsidiary shall have Guaranteed the Obligations and such Subsidiary's Guarantee shall comply with the conditions and restrictions applicable to the refinancing Indebtedness Guaranteed thereby as set forth above.

"Refinancing Period" means the period from and including the date of issuance of any Permitted Refinancing Indebtedness or consummation of the Specified 2004 Securities Offering and to and including September 30, 2004.

"Specified 2004 Securities Offering" means one or more offerings and sales by Holdings of (a) its common stock, par value $0.01 per share, pursuant to a registration statement on Form S-3 to be filed with the Securities and Exchange Commission, (b) Permitted Convertible Debt

or (c) a combination thereof, in any event, in an aggregate amount (together with the aggregate principal amount of Permitted Refinancing Indebtedness) not to exceed $300,000,000, provided that (i) such securities are issued on or prior to September 30, 2004, (ii) all Net Proceeds of such securities must be applied during the Refinancing Period for the purpose of purchasing, redeeming and retiring a portion of the First Lien Notes, the Second Lien Notes, the Subordinated Debt or a combination thereof (or, at the Borrower's option, to prepay Tranche E Term Loans), and (iii) any proceeds required to be applied as described in clause (ii) above and not so applied on the date of receipt shall be segregated and held pursuant to an arrangement reasonably satisfactory to the Administrative Agent to ensure that such proceeds are so applied during the Refinancing Period (or, at the Borrower's option, to prepay Tranche E Term Loans).

SECTION 2. Additional Amendments to Section 1.01. Section 1.01 of the Credit Agreement is further amended as follows:

(a) Clause (c) of the definition of "Prepayment Event" is amended to insert the text "that does not constitute Permitted Refinancing Indebtedness" after the text "Permitted Convertible Debt".

(b) The definition of "Permitted Convertible Debt" is amended to insert the text " or of Holdings and the Borrower" after the text "Indebtedness of Holdings".

SECTION 3. Amendments to Section 6.01. Section 6.01(a) of the Credit Agreement is amended as follows:

(a) Clause (xiv) is amended by deleting the text "and" at the end thereof.

(b) Clause (xv) is amended by substituting the text "; and" for the text ".".

(c) Section 6.01(a) is further amended by inserting the following new clause (xvi) at the end thereof:

(xvi) Permitted Refinancing Indebtedness incurred prior to September 30, 2004, provided that the aggregate principal amount of Permitted Refinancing Indebtedness plus the aggregate proceeds from any Specified 2004 Securities Offering shall not exceed $300,000,000.

SECTION 4. Amendments to Section 6.08. Section 6.08(b) of the Credit Agreement is hereby amended as follows:

(a) Clause (vi) is amended by deleting the text "and" at the end thereof.

(b) Clause (vii) is amended by substituting the text "; and" for the text ".".

(c) Section 6.08(b) is further amended by inserting the following new clause (viii) at the end thereof:

(viii) payments on account of the purchase, redemption or retirement of any First Lien Notes, Second Lien Notes or Subordinated Debt with the Net Proceeds of the

Specified 2004 Securities Offering, provided that (A) after giving effect to such purchase, redemption or retirement, no Default or Event of Default shall have occurred and be continuing and (B) any such purchase, redemption or retirement shall be made during the Refinancing Period and otherwise in compliance with the provisions of the First Lien Note Indenture, Second Lien Note Indenture or the Subordinated Debt Documents, as applicable (it being understood and agreed that any First Lien Notes, Second Lien Notes or Subordinated Debt purchased pursuant to this clause (viii) shall immediately be canceled).

SECTION 5. Waiver. The undersigned Lenders hereby waive the provisions of Section 2.11(c)(i)(C) of the Credit Agreement with respect to the prepayment of Tranche E Term Borrowings with 50% of the Net Proceeds of the Specified 2004 Securities Offering and consent to the application of the Net Proceeds of the Specified 2004 Securities Offering as contemplated herein. Such waiver shall automatically expire if the Specified 2004 Securities Offering is not consummated on or prior to September 30, 2004.

SECTION 6. Amendment Fee. The Borrower agrees to pay to the Administrative Agent, for the account of each Lender that delivers an executed counterpart of this Amendment at or prior to 4:00 p.m., New York City time, on March 30, 2004, an amendment fee in an amount equal to 0.05% of the sum of such Lender's Revolving Commitment and outstanding Tranche E Term Loans as of the date this Amendment becomes effective, provided that such fee shall not be payable unless and until this Amendment becomes effective as provided in Section 8.

SECTION 7. Representations and Warranties. Each of Holdings and the Borrower represents and warrants to the Administrative Agent and to each of the Lenders that:

(a) This Amendment has been duly authorized, executed and delivered by each of Holdings and the Borrower and constitutes a legal, valid and binding obligation of Holdings and the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

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

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

SECTION 8. Conditions to Effectiveness. This Amendment shall become effective on the date that any Permitted Refinancing Indebtedness is incurred or any Equity Interests are issued pursuant to the Specified 2004 Securities Offering (which date shall not be later than September 30, 2004), subject to satisfaction of the following conditions on or prior to such date: (a) the Administrative Agent shall have received counterparts of this Amendment that, when taken together,

bear the signatures of Holdings, the Borrower and the Required Lenders, and (b) all fees and other amounts due and payable in connection with this Amendment or the Credit Agreement, including to the extent invoiced in writing to the Borrower at least two Business Days prior to such date, reimbursement or payment of all reasonable, documented, out-of-pocket expenses (including fees, charges and disbursements of counsel or other advisors) required to be paid or reimbursed by any Loan Party, shall have been paid or reimbursed, as applicable.

SECTION 9. Credit Agreement. Except as specifically waived or amended hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Credit Agreement shall mean the Credit Agreement as amended or modified hereby. This Amendment shall be a Loan Document for all purposes.

SECTION 10. Applicable Law; Waiver of Jury Trial. (A) THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

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

SECTION 11. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one agreement. Delivery of an executed signature page to this Amendment by facsimile or other electronic transmission shall be effective as delivery of a manually signed counterpart of this Amendment.

SECTION 12. Expenses. The Borrower agrees to reimburse the Administrative Agent for its reasonable, documented, out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore LLP, counsel for the Administrative Agent.

SECTION 13. Headings. The Section headings used herein are for convenience of reference only, are not part of this Amendment and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

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

ON SEMICONDUCTOR CORPORATION,

By /s/ DONALD COLVIN

Name: **Donald Colvin**
Title: **Sr. Vice President & Chief Financial Officer**

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC,

By /s/ DONALD COLVIN

Name: **Donald Colvin**
Title: **Sr. Vice President & Chief Financial Officer**

JPMORGAN CHASE BANK,
individually and as Administrative Agent,

By /s/ EDMOND DEFOREST

Name: **Edmond DeForest**
Title: **Vice President**

SIGNATURE PAGE TO AMENDMENT AND WAIVER DATED AS OF MARCH 30, 2004, TO THE CREDIT AGREEMENT DATED AS OF AUGUST 4, 1999, AS AMENDED, AND RESTATED AS OF NOVEMBER 25, 2003, AMONG ON SEMICONDUCTOR CORPORATION, SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC, THE LENDERS PARTY THERETO, AND JPMORGAN CHASE BANK, AS ADMINISTRATIVE AGENT.

Name of Institution: Galaxy CLO 1999-1, Ltd.

By: AIG Global Investment Corp.
as Collateral Agent

By /s/ JOHN G. LAPHAM, III

Name: **John G. Lapham, III**
Title: **Managing Director**

[Not included in this filing are numerous signature pages for the numerous banks that are Lenders under the Credit Agreement.]

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Keith D. Jackson, certify that:

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

Date: May 7, 2004

/s/ KEITH D. JACKSON

Keith D. Jackson
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald Colvin, certify that:

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

Date: May 7, 2004

/s/ DONALD COLVIN

Donald Colvin
Chief Financial Officer

Exhibit 32

Certification

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

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

The Quarterly Report on Form 10-Q for the quarter ended April 2, 2004 ("Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2004

/s/ KEITH D. JACKSON

Keith D. Jackson
President and Chief Executive Officer

Dated: May 7, 2004

/s/ DONALD COLVIN

Donald Colvin
Senior Vice President and
Chief Financial Officer

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