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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 28, 2001

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number 000-30419

ON SEMICONDUCTOR CORPORATION

(Exact name of registrant as specified in its charter)

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

5005 E. McDowell Road

Phoenix, AZ 85008
(602) 244-6600
(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☑ Yes o No

The number of shares outstanding of each of the issuer’s classes of common stock as of the close of business on November 5, 2001:

Class	Number of Shares
Common Stock; $.01 par value	174,224,208

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PART I: FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 28, 2001	December 31, 2000
	(unaudited) (in millions, except share data)	
Assets		
Cash and cash equivalents	$ 205.8	$ 188.9
Receivables, net (including $12.1 and $14.9 due from Motorola)	153.3	271.2
Inventories	223.1	258.1
Other current assets	51.6	39.6
Deferred income taxes	100.0	40.7
Total current assets	733.8	798.5
Property, plant and equipment, net	594.2	648.2
Deferred income taxes	297.4	286.8
Investments in joint ventures	31.3	45.3
Goodwill and other intangibles, net	122.7	140.8
Other assets	105.0	103.4
Total assets	$1,884.4	$2,023.0
Liabilities, Minority Interests, Redeemable Preferred Stock, and Stockholders' Equity (Deficit)		
Accounts payable (including $4.5 and $7.3 payable to Motorola)	$ 139.4	$ 175.0
Accrued expenses (including $2.3 and $8.3 payable to Motorola)	123.3	184.3
Income taxes payable	5.8	22.3
Accrued interest	9.2	17.9
Deferred income on sales to distributors (See Note 2)	117.0	—
Current portion of long-term debt	16.0	5.6
Total current liabilities	410.7	405.1
Long-term debt (including $112.3 and $104.5 payable to Motorola)	1,378.9	1,252.7
Other long-term liabilities	37.7	20.8
Total liabilities	1,827.3	1,678.6
Commitments and contingencies (See Note 10)	—	—
Minority interests in consolidated subsidiaries	5.4	6.7
Redeemable preferred stock ($0.01 par value, 100,000 shares authorized, 10,000 shares issued and outstanding in 2001; 8% annual dividend rate; liquidation value — $100,000,000 plus $0.5 of accrued dividends in 2001)	99.1	—
Common stock ($0.01 par value, 300,000,000 shares authorized, 174,220,202 and 172,746,435 shares issued and outstanding)	1.7	1.7
Additional paid-in capital	738.5	730.4
Accumulated other comprehensive loss	(13.4)	(0.7)
Accumulated deficit	(774.2)	(393.7)
Total stockholders' equity (deficit)	(47.4)	337.7
Total liabilities, minority interests, and stockholders' equity (deficit)	$1,884.4	$2,023.0

See accompanying notes to consolidated financial statements.

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ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

	Quarter Ended		Nine Months Ended	
	Sept. 28, 2001	Sept. 30, 2000	Sept. 28, 2001	Sept. 30, 2000
	(unaudited)		(unaudited)	
	(in millions, except per share data)			
Revenues:				
Net product revenues (including $24.8, $37.3, $69.1 and $109.1 from Motorola)	$275.4	$539.0	$ 939.7	$1,521.5
Foundry revenues from Motorola	1.1	4.2	8.0	59.0
Total revenues	276.5	543.2	947.7	1,580.5
Cost of sales	240.3	349.2	769.8	1,030.3
Gross profit	36.2	194.0	177.9	550.2
Operating expenses:				
Research and development	18.1	20.3	63.9	48.6
Selling and marketing	14.8	27.5	59.4	73.3
General and administrative	33.5	64.4	104.3	175.0
Amortization of goodwill and other intangibles	5.6	5.4	17.0	10.9
Write-off of acquired in-process research and development	—	—	—	26.9
Restructuring and other charges	—	—	133.8	4.8
Total operating expenses	72.0	117.6	378.4	339.5
Operating income (loss)	(35.8)	76.4	(200.5)	210.7
Other income (expenses), net:				
Interest expense	(34.5)	(31.9)	(93.4)	(100.4)
Equity in earnings of joint ventures	1.1	2.1	3.2	4.3
Gain on sale of investment	—	—	3.1	—
Other income (expenses), net	(33.4)	(29.8)	(87.1)	(96.1)
Income (loss) before income taxes, minority interests, extraordinary loss and cumulative effect of accounting change	(69.2)	46.6	(287.6)	114.6
Income tax benefit (provision)	—	(16.0)	22.7	(41.8)
Minority interests	0.3	(0.7)	0.8	(1.9)
Net income (loss) before extraordinary loss and cumulative effect of accounting change	(68.9)	29.9	(264.1)	70.9
Extraordinary loss on debt prepayment (net of income taxes of $11.7)	—	—	—	(17.5)
Cumulative effect of accounting change (net of income taxes of $38.8)	—	—	(116.4)	—
Net income (loss)	(68.9)	29.9	(380.5)	53.4
Less: Accretion of beneficial conversion feature on redeemable preferred stock	(13.1)	—	(13.1)	—
Less: Redeemable preferred stock dividends	(0.5)	—	(0.5)	(8.8)
Net income (loss) available for common stock	$ (82.5)	$ 29.9	$(394.1)	$ 44.6

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS) — (Continued)

	Quarter Ended		Nine Months Ended	
	Sept. 28, 2001	Sept. 30, 2000	Sept. 28, 2001	Sept. 30, 2000
	(unaudited)		(unaudited)	
	(in millions, except per share data)			
Comprehensive income (loss):				
Net income (loss)	$ (68.9)	$ 29.9	$(380.5)	$ 53.4
Foreign currency translation adjustments	0.9	(0.9)	(2.5)	(1.2)
Additional minimum pension liability	—	—	(0.4)	—
Cash flow hedges:				
Cumulative effect of accounting change (See Note 12)	—	—	(3.4)	—
Net losses on derivative instruments	(4.3)	—	(6.7)	—
Reclassification adjustments	0.1	—	0.4	—
Comprehensive income (loss)	$ (72.2)	$ 29.0	$(393.1)	$ 52.2
Earnings (loss) per common share:				
Basic:				
Net income (loss) before extraordinary loss and cumulative effect of accounting change	$ (0.47)	$ 0.17	$ (1.60)	$ 0.40
Extraordinary loss on debt prepayment	—	—	—	(0.11)
Cumulative effect of accounting change	—	—	(0.67)	—
Net income (loss)	$ (0.47)	$ 0.17	$ (2.27)	$ 0.29
Diluted:				
Net income (loss) before extraordinary loss and cumulative effect of accounting change	$ (0.47)	$ 0.17	$ (1.60)	$ 0.39
Extraordinary loss on debt prepayment	—	—	—	(0.11)
Cumulative effect of accounting change	—	—	(0.67)	—
Net income (loss)	$ (0.47)	$ 0.17	$ (2.27)	$ 0.28
Weighted average common shares outstanding:				
Basic	173.9	171.7	173.4	156.1
Diluted	173.9	177.1	173.4	161.9

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 28, 2001	Nine Months Ended September 30, 2000
	(unaudited)	(unaudited)
	(in millions)	
Cash flows from operating activities:		
Net income (loss)	$(380.5)	$ 53.4
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	127.9	117.3
Write-off of acquired in-process research and development	—	26.9
Extraordinary loss on debt prepayment	—	29.2
Cumulative effect of accounting change	116.4	—
Amortization of debt issuance costs	4.0	4.5
Provision for doubtful accounts	(0.2)	1.1
Net (gain) loss on disposals of property, plant and equipment	1.6	(1.2)
Non-cash impairment write-down of property, plant and equipment	45.1	—
Non-cash interest on long-term debt	10.7	7.1
Minority interests in earnings (losses) of consolidated subsidiaries	(0.8)	1.9
Undistributed earnings of unconsolidated joint ventures	(3.2)	(4.3)
Tax benefits of stock options exercised	0.7	3.0
Gain on sale of investment in unconsolidated joint venture	(3.1)	—
Deferred income taxes	(24.1)	(6.8)
Non-cash compensation charges	3.5	0.4
Changes in assets and liabilities:		
Receivables	118.7	(25.7)
Inventories	34.6	(10.8)
Other assets	(18.6)	(18.4)
Accounts payable	(35.3)	40.5
Accrued expenses	(34.1)	39.3
Income taxes payable	(16.8)	(17.6)
Accrued interest	(8.7)	(19.9)
Deferred income on sales to distributors	(65.2)	—
Other long-term liabilities	1.7	3.6
Net cash provided by (used in) operating activities	(125.7)	223.5

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

	Nine Months Ended September 28, 2001	Nine Months Ended September 30, 2000
	(unaudited)	(unaudited)
	(in millions)	
Cash flows from investing activities:		
Purchases of property, plant and equipment	(99.3)	(126.0)
Investment in business, net of cash acquired	—	(253.2)
Acquisition of minority interest in consolidated subsidiaries	(0.1)	—
Investments in unconsolidated companies and joint ventures	(0.5)	(2.5)
Loans to unconsolidated joint venture	(5.0)	(23.0)
Proceeds from sale of investment in unconsolidated joint venture	20.4	—
Proceeds from sales of property, plant and equipment	2.3	17.9
Net cash used in investing activities	(82.2)	(386.8)
Cash flows from financing activities:		
Proceeds from initial public offering, net of offering expenses	—	514.8
Proceeds from senior credit facilities and other borrowings	125.0	200.0
Payments of capital lease obligation	(1.2)	—
Payment of debt issuance costs	(3.1)	(3.2)
Repayment of senior credit facilities, including prepayment penalty	—	(131.5)
Repayment of senior subordinated notes, including prepayment penalty	—	(156.8)
Redemption of preferred stock, including accrued dividends	—	(228.4)
Proceeds from redeemable preferred stock	98.6	—
Proceeds from issuance of stock under the employee stock purchase plan	3.8	—
Proceeds from exercise of stock options	0.6	1.0
Net cash provided by financing activities	223.7	195.9
Effect of exchange rates on cash and cash equivalents	1.1	(0.1)
Net increase in cash and cash equivalents	16.9	32.5
Cash and cash equivalents, beginning of period	188.9	126.8
Cash and cash equivalents, end of period	$205.8	$ 159.3

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Background and Basis of Presentation

The accompanying consolidated financial statements as of and for the quarter and nine months ended September 28, 2001 include the accounts of ON Semiconductor Corporation, its wholly-owned subsidiaries, and the majority-owned subsidiaries that it controls (collectively, the “Company”). An investment in a majority-owned joint venture that the Company does not control is accounted for on the equity method. Investments in companies that represent less than 20% of the related voting stock are accounted for on the cost basis. All material intercompany accounts and transactions have been eliminated.

The accompanying unaudited financial information reflects all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto included in our Form 10-K for the year ended December 31, 2000 and filed with the Securities and Exchange Commission (“SEC”) on March 30, 2001.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

On August 4, 1999, the Company was recapitalized and certain related transactions were effected (the “Recapitalization”) pursuant to an agreement among ON Semiconductor Corporation, its primary domestic operating subsidiary, Semiconductor Components Industries, LLC (“SCI LLC”), Motorola and affiliates of Texas Pacific Group (“TPG”). As a result of the Recapitalization, affiliates of TPG owned approximately 91% and Motorola owned approximately 9% of the outstanding common stock of the Company. In addition, as part of these transactions, TPG received 1,500 shares and Motorola received 590 shares of the Company’s mandatorily redeemable preferred stock with a liquidation value of $209 million plus accrued and unpaid dividends. Motorola also received a $91 million junior subordinated note issued by SCI LLC. Cash payments to Motorola in connection with the Recapitalization were financed through equity investments by affiliates of TPG totaling $337.5 million, borrowings totaling $740.5 million under the Company’s $875 million senior bank facilities and the issuance of $400 million of 12% senior subordinated notes due August 2009. Because TPG’s affiliates did not acquire substantially all of the Company’s common stock, the basis of the Company’s assets and liabilities for financial reporting purposes was not impacted by the Recapitalization.

On May 3, 2000, the Company completed the initial public offering (“IPO”) of its common stock, selling 34.5 million shares with an issue price of $16 per share. Net proceeds from the IPO (after deducting issuance costs) were approximately $514.8 million. The net proceeds were used to redeem all outstanding preferred stock (including accrued dividends), redeem a portion of the senior subordinated notes and prepay a portion of the loans outstanding under the senior bank facilities.

As described above, the Company utilized a portion of the net proceeds from its IPO to redeem a portion of its senior subordinated notes and prepay a portion of the loans outstanding under its senior bank facilities. In connection therewith, the Company incurred prepayment penalties and redemption premiums of $17.3 million and wrote off $11.9 million of debt issuance costs. These amounts, totaling $29.2 million ($17.5 million or $0.11 per share, net of income taxes), have been classified as an extraordinary loss in the accompanying consolidated statements of operations for the nine months ended September 30, 2000.

As described in Note 9, on September 7, 2001, an affiliate of TPG purchased 10,000 shares of the Company’s Series A cumulative convertible preferred stock with a stated value of $10,000 per share.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 2: Cumulative Effect of Accounting Change

Effective January 1, 2001, the Company changed its accounting method for recognizing revenue on sales to distributors. Recognition of revenue and related gross profit on sales to distributors is now deferred until the distributor resells the product. Deferred income on sales to distributors was $117.0 million at September 28, 2001.

Management of the Company believes that this accounting change is to a preferable method because it better aligns reported results with, focuses the Company on, and allows investors to better understand end user demand for the products the Company sells through distribution. This revenue recognition policy is commonly used in the semiconductor industry.

The cumulative effect of the accounting change for periods prior to January 1, 2001 was a charge of $155.2 million ($116.4 million or $0.67 per share, net of income taxes) and was recorded in the nine months ended September 28, 2001. The accounting change resulted in a reduction of the Company's net loss in the nine months ended September 28, 2001 of $40.0 million, or $0.23 per share.

The estimated pro forma effects of the accounting change are as follows (in millions, except per share amounts):

	Quarter Ended September 28, 2001	Quarter Ended September 30, 2000	Nine Months Ended September 28, 2001	Nine Months Ended September 30, 2000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
As reported:				
Revenues	$276.5	$543.2	$ 947.7	$1,580.5
Net income (loss)	(68.9)	29.9	(380.5)	53.4
Basic net income (loss) per share	$ (0.47)	$ 0.17	$ (2.27)	$ 0.29
Diluted net income (loss) per share	$ (0.47)	$ 0.17	$ (2.27)	$ 0.28
Pro forma amounts reflecting the accounting change applied retroactively:				
Revenues	$276.5	$523.9	$ 947.7	$1,488.1
Net loss	(68.9)	26.9	(264.1)	22.1
Basic net income (loss) per share	$ (0.47)	$ 0.16	$ (1.60)	$ 0.09
Diluted net income (loss) per share	$ (0.47)	$ 0.15	$ (1.60)	$ 0.08

Note 3: Acquisition

On April 3, 2000, the Company acquired all of the outstanding capital stock of Cherry Semiconductor Corporation ("Cherry") for approximately $250 million in cash, which was financed with cash on hand and borrowings of $220 million under the Company's senior bank facilities. Cherry, which was renamed Semiconductor Components Industries of Rhode Island, Inc., designs and manufactures analog and mixed signal integrated circuits for the power management and automotive markets, and had revenues for its fiscal year ended February 29, 2000 of $129.1 million.

The Cherry acquisition was accounted for using the purchase method of accounting and as a result, the purchase price plus related costs was allocated to the estimated fair value of assets acquired and liabilities

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assumed at the time of the acquisition based on independent appraisals and management estimates as follows (in millions):

Fair value of tangible net assets	$ 71.3
Developed technology	59.3
In-process research and development	26.9
Assembled work force	10.0
Excess of purchase price over net assets acquired (goodwill)	85.7
	$253.2

Developed technology and assembled workforce are being amortized on a straight-line basis over estimated useful lives of five years while goodwill is being amortized over an estimated life of ten years.

The fair value of the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. Significant assumptions that had to be made in using this approach included revenue and operating margin projections and determination of the applicable discount rate. The fair value of the acquired in-process research and development was based on sales forecasts and cost assumptions projected to be achievable by Cherry on a standalone basis. Operating margins were based on cost of goods sold and selling, general, and administrative expenses as a percentage of revenues. All projected revenue and cost information was based on historical results and trends and do not include any synergies or cost savings that may result from the acquisition. The rate used to discount future projected cash flows resulting from the acquired in-process research and development was 20 percent which was derived from a weighted average cost of capital analysis adjusted upward to reflect additional risks inherent in the development life cycle.

At the date of acquisition, the in-process research and development had not yet reached technological feasibility and no alternative future uses had been identified. Accordingly, these costs were expensed as of the acquisition date. The expected release dates for the products incorporating the acquired technology vary, but such products began to generate cash flows in 2001. The ultimate development of these technologies remains a significant risk due to the remaining efforts required to achieve technical viability, rapidly changing customer markets, uncertain standards for new products and significant competitive threats from numerous companies. The nature of the efforts to develop the acquired technology into commercially viable products consists principally of design and development, engineering and testing activities necessary to determine that the product can meet market expectations, including functionality and technical requirements. Failure to bring these products to market in a timely manner could result in a loss of market share, or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on our business and operating results.

The forecasts used in valuing the acquired in-process research and development were based upon assumptions the Company believes are reasonable; however, such assumptions may be incomplete or inaccurate, and unanticipated events and circumstances are likely to occur. There can be no assurance that the underlying assumptions used to estimate expected project sales or profits, or the events associated with such projects, will transpire as estimated. For these reasons, actual results may vary from the projected results.

Cherry's results of operations have been included in the Company's consolidated results from the date of acquisition. The following pro forma disclosures present the Company's results of operations for the nine

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

months ended September 30, 2000 as if the Company had acquired Cherry as of January 1, 2000 (in millions, except per share data):

Total revenues	$1,617.2
Net income before extraordinary loss	67.9
Net income	50.4
Diluted earnings per share before extraordinary loss	$ 0.37
Diluted earnings per share	$ 0.26

These amounts include the results of Cherry for the first quarter of 2000 and are adjusted to reflect interest and amortization charges that would have occurred had the purchase taken place on January 1, 2000. The amounts are based upon certain assumptions and estimates, and do not reflect any benefit from any cost savings which might be achieved from combined operations. The pro forma results are not indicative of the actual results that would have occurred had the acquisition been consummated as of January 1, 2000.

Note 4: Inventories

Inventories consist of the following (in millions):

	September 28, 2001	December 31, 2000
Raw materials	$ 12.6	$ 26.6
Work in process	134.7	123.4
Finished goods	75.8	108.1
	$223.1	$258.1

Note 5: Restructuring and Other Charges

In June 2001, the Company recorded a $95.8 million charge to cover costs associated with a worldwide restructuring program. This program includes phasing out of manufacturing operations at the Company's Guadalajara, Mexico facility, transferring certain manufacturing activities performed at the Company's Aizu, Japan and Seremban, Malaysia facilities to other Company-owned facilities or to third party contractors and consolidation of other operations. The charge includes $43.6 million to cover employee separation costs associated with the termination of approximately 3,200 employees, asset impairments of $42.2 million and $10.0 million of other costs primarily related to facility closures and contract terminations. The asset impairments were charged directly against the related assets. Employee separation costs included $1.1 million of non-cash charges associated with the acceleration of vesting of stock options for terminated employees and $6.1 million for additional pension charges related to terminated employees. As of September 28, 2001, the remaining liability relating to this restructuring was $30.0 million. As of September 28, 2001, 1,703 employees have been terminated under this restructuring plan.

In March 2001, the Company recorded a $34.2 million charge to cover costs associated with a worldwide restructuring program involving manufacturing locations as well as selling and administrative functions. The charge included $31.3 million to cover employee separation costs associated with the termination of approximately 1,100 employees and $2.9 million for asset impairments that were charged directly against the related assets. As of September 28, 2001, the remaining liability relating to this restructuring was $1.4 million. As of September 28, 2001, 1,015 employees have been terminated under this restructuring plan.

Also in March 2001, the Company recorded a $3.8 million charge to cover costs associated with the separation of one of the Company's executive officers. In connection with the separation, the Company paid the former executive officer $1.9 million. In addition, the Company agreed to accelerate the vesting of his

remaining stock options and to allow such options to remain exercisable for the remainder of their ten-year term. The Company recorded a non-cash charge of $1.9 million related to the modification of these options.

In March 2000, the Company recorded a $4.8 million charge to cover costs associated with a restructuring program at its manufacturing facility in Guadalajara, Mexico. The charge included $3.2 million to cover employee separation costs associated with the termination of approximately 500 employees and $1.6 million for asset impairments that were charged directly against the related assets. As of September 28, 2001 there was no remaining liability related to this restructuring program.

A summary of activity in the Company's restructuring reserves for the nine months ended September 28, 2001 is as follows (in millions):

	Balance as of December 31, 2000	Additional Reserves	Amounts Used	Balance as of September 29, 2001
Facility closure and other exit costs	$ —	$10.0	$ —	$10.0
Employee separations	0.7	67.7	(47.0)	21.4
Total restructuring	$0.7	$77.7	$(47.0)	$31.4

Note 6: Sale of Investment in Joint Venture

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

Note 7: Earnings (Loss) per Common Share

Basic earnings (loss) per share are computed by dividing net income (loss) available for common stock (net income (loss) adjusted for dividends accrued on the Company's redeemable preferred stock and the accretion of the beneficial conversion feature on the redeemable preferred stock) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share assumes the conversion of the redeemable preferred stock into 35,460,993 shares of common stock, and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options. The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. For the quarter and nine months ended September 28, 2001, the assumed conversion of the

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

redeemable preferred stock and the effect of stock options are not included as the related impact would be anti-dilutive. Earnings (loss) per share calculations are as follows (in millions, except per share data):

	Quarter Ended September 28, 2001	Quarter Ended September 30, 2000	Nine Months Ended September 28, 2001	Nine Months Ended September 30, 2000
Net income (loss) before extraordinary loss and cumulative effect of accounting change	$ (68.9)	$ 29.9	$(264.1)	$ 70.9
Less: Accretion of beneficial conversion feature on redeemable preferred stock	(13.1)	—	(13.1)	—
Less: Redeemable preferred stock dividends	(0.5)	—	(0.5)	(8.8)
Net income (loss) available for common stock	(82.5)	29.9	(277.7)	62.1
Extraordinary loss on debt prepayment	—	—	—	(17.5)
Cumulative effect of accounting change	—	—	(116.4)	—
Net income (loss)	$ (82.5)	$ 29.9	$(394.1)	$ 44.6
Basic weighted average common shares outstanding	173.9	171.7	173.4	156.1
Add: Dilutive effect of stock options	—	5.4	—	5.8
Diluted weighted average common shares outstanding	173.9	177.1	173.4	161.9
Earnings (loss) per share:				
Basic:				
Net income (loss) before extraordinary loss and cumulative effect of accounting change available for common stock	$ (0.47)	$ 0.17	$ (1.60)	$ 0.40
Extraordinary loss on debt prepayment	—	—	—	(0.11)
Cumulative effect of accounting change	—	—	(0.67)	—
Net income (loss) available for common stock	$ (0.47)	$ 0.17	$ (2.27)	$ 0.29
Diluted:				
Net income (loss) before extraordinary loss and cumulative effect of accounting change available for common stock	$ (0.47)	$ 0.17	$ (1.60)	$ 0.39
Extraordinary loss on debt prepayment	—	—	—	(0.11)
Cumulative effect of accounting change	—	—	(0.67)	—
Net income (loss) available for common stock	$ (0.47)	$ 0.17	$ (2.27)	$ 0.28

Note 8: Long-Term Debt

At June 29, 2001, the Company was not in compliance with the minimum interest expense coverage ratio and leverage ratio covenants related to its senior bank facilities. As of August 13, 2001, the Company received a waiver in respect of such noncompliance at June 29, 2001 and in respect of any future noncompliance with such covenants through December 31, 2002. In connection with such waiver, the Company has amended its senior bank facilities. The key terms of this amendment are as follows:

- Minimum interest expense coverage ratio and leverage ratio requirements for periods between January 1, 2003 through December 31, 2005 were reduced, maximum capital expenditure limits were reduced and covenants requiring the maintenance of a minimum cash and cash equivalent balance until certain financial ratios are achieved and minimum EBITDA levels through December 31, 2002 were added;

- The Company was required to obtain $100 million through an equity investment from its principal shareholder, an affiliate of TPG, by September 7, 2001. As described in Note 9, the Company satisfied

this requirement on September 7, 2001, when it issued 10,000 shares of redeemable preferred stock to an affiliate of TPG in exchange for $100 million ($98.6 million, net of issuance costs);

- The interest rate spread on outstanding borrowings increased to 3.0% with respect to alternate base rate loans and 4.0% with respect to Eurodollar loans. Payment of such interest is required on a monthly basis. Additionally, a supplemental interest charge of 2.0% accrues through September 30, 2001, increasing to 3.0% for the period October 1, 2001 through March 31, 2003. Fifty percent of such supplemental interest must be paid by March 31, 2003 with the balance due by June 30, 2003. To the extent that the full amount of such supplemental interest is not paid on March 31, 2003, additional supplemental interest for the period of March 31, 2003 through June 30, 2003 will accrue at a rate of 3.0% on a portion of the outstanding borrowings, which portion is equal to the percentage of supplemental interest accrued but unpaid on March 31, 2003. Such additional supplemental interest will be due by June 30, 2003. As a result of these amendments, the Company's interest expense on an annual basis is expected to increase by approximately $36.1 million; and

- Certain mandatory prepayment provisions contained in the original agreement were revised.

The Company was in compliance with these amended covenants at September 28, 2001.

In connection with the Recapitalization, the Company and SCI LLC, (collectively, the "Issuers"), issued $400.0 million senior subordinated notes due 2009. As of September 28, 2001, $260.0 million of the senior subordinated notes were outstanding. The Company's other domestic subsidiaries (collectively, the "Guarantor Subsidiaries") have jointly and severally, irrevocably and unconditionally guaranteed the Issuers' obligations under the senior subordinated notes. The Guarantor Subsidiaries include holding companies whose net assets consist primarily of investments in the Company's foreign joint ventures in China and the Czech Republic and nominal equity interests in certain of the Company's foreign subsidiaries as well as Semiconductor Components Industries of Rhode Island, Inc. The foreign joint ventures and the Company's foreign subsidiaries (collectively, the "Non-Guarantor Subsidiaries") themselves are not guarantors of the senior subordinated notes.

The Company does not believe that the separate financial statements and other disclosures concerning the Guarantor Subsidiaries provide any additional information that would be material to investors in making

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an investment decision. Condensed consolidating financial information for the Issuers, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries follows (in millions):

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of September 28, 2001						
Cash and cash equivalents	$ —	$ 163.3	$ —	$ 42.5	$ —	$ 205.8
Receivables, net	—	58.6	—	94.7	—	153.3
Inventories	—	31.2	3.5	232.7	(44.3)	223.1
Other current assets	—	79.7	0.3	53.0	18.6	151.6
Total current assets	—	332.8	3.8	422.9	(25.7)	733.8
Property, plant and equipment, net	—	161.0	45.2	392.4	(4.4)	594.2
Deferred income taxes	—	295.1	14.7	3.4	(15.8)	297.4
Goodwill and other intangibles, net	—	10.6	113.5	(1.4)	—	122.7
Investments and other assets	17.2	211.8	61.4	(58.5)	(95.6)	136.3
Total assets	$ 17.2	$1,011.3	$238.6	$ 758.8	$(141.5)	$1,884.4
Accounts payable	$ —	$ 42.5	$ 4.4	$ 92.5	$ —	$ 139.4
Accrued expenses and other current liabilities	(3.8)	64.8	(13.3)	65.1	41.5	154.3
Deferred income on shipments to distributors	—	18.6	—	98.4	—	117.0
Total current liabilities	(3.8)	125.9	(8.9)	256.0	41.5	410.7
Long-term debt(1)	260.0	1,355.1	—	23.8	(260.0)	1,378.9
Other long-term liabilities	—	27.8	—	9.9	—	37.7
Intercompany(1)	(290.7)	(624.3)	210.1	468.1	236.8	—
Total liabilities	(34.5)	884.5	201.2	757.8	18.3	1,827.3
Minority interests	—	—	—	—	5.4	5.4
Preferred Stock	99.1	—	—	—	—	99.1
Stockholders’ equity (deficit)	(47.4)	126.8	37.4	1.0	(165.2)	(47.4)
Liabilities, minority interests and stockholders’ equity (deficit)	$ 17.2	$1,011.3	$238.6	$ 758.8	$(141.5)	$1,884.4
As of December 31, 2000						
Cash and cash equivalents	$ —	$ 44.9	$ (1.1)	$ 145.1	$ —	$ 188.9
Receivables, net	—	118.2	—	153.0	—	271.2
Inventories	—	48.4	6.6	261.6	(58.5)	258.1
Other current assets	—	36.8	0.7	34.6	8.2	80.3
Total current assets	—	248.3	6.2	594.3	(50.3)	798.5
Property, plant and equipment, net	—	157.5	52.4	438.5	(0.2)	648.2
Deferred income taxes	—	278.1	14.2	(5.5)	—	286.8
Goodwill and other intangibles, net	—	—	140.8	—	—	140.8
Investments and other assets	429.4	340.8	57.8	5.6	(684.9)	148.7
Total assets	$ 429.4	$1,024.7	$271.4	$1,032.9	$(735.4)	$2,023.0
Accounts payable	$ —	$ 62.0	$ 7.0	$ 106.0	$ —	$ 175.0
Accrued expenses and other current liabilities	(3.2)	124.4	10.4	97.2	1.3	230.1
Total current liabilities	(3.2)	186.4	17.4	203.2	1.3	405.1
Long-term debt(1)	260.0	1,228.2	—	24.5	(260.0)	1,252.7
Other long-term liabilities	—	9.7	—	11.1	—	20.8
Intercompany(1)	(165.1)	(782.6)	150.4	537.3	260.0	—
Total liabilities	91.7	641.7	167.8	776.1	1.3	1,678.6
Minority interests	—	—	—	—	6.7	6.7

Stockholders' equity	337.7	383.0	103.6	256.8	(743.4)	337.7
Liabilities, minority interests and stockholders' equity	$ 429.4	$1,024.7	$271.4	$1,032.9	$(735.4)	$2,023.0

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the nine months ended September 28, 2001						
Revenues	$ —	$ 523.9	$ 36.7	$1,323.9	$(936.8)	$ 947.7
Cost of sales	—	425.5	36.3	1,244.8	(936.8)	769.8
Gross profit	—	98.4	0.4	79.1	—	177.9
Research and development	—	(3.6)	11.7	55.8	—	63.9
Selling and marketing	—	28.5	3.7	27.2	—	59.4
General and administrative	—	52.0	5.7	46.6	—	104.3
Amortization of goodwill and other intangibles	—	—	17.0	—	—	17.0
Restructuring and other charges	—	43.3	1.3	89.2	—	133.8
Total operating expenses	—	120.2	39.4	218.8	—	378.4
Operating income (loss)	—	(21.8)	(39.0)	(139.7)	—	(200.5)
Interest expense, net	—	(44.4)	(14.1)	(34.9)	—	(93.4)
Equity earnings	(380.5)	(190.1)	3.1	—	570.7	3.2
Gain on the sale of investment in joint venture	—	—	3.1	—	—	3.1
Income (loss) before income taxes, minority interests and cumulative effect of accounting change, net	(380.5)	(256.3)	(46.9)	(174.6)	570.7	(287.6)
Income tax benefit (provision)	—	56.9	7.9	6.8	(48.9)	22.7
Minority interests	—	—	—	—	0.8	0.8
Cumulative effect of accounting change (net of tax)	—	(44.1)	—	(72.3)	—	(116.4)
Net income (loss)	(380.5)	(243.5)	(39.0)	(240.1)	522.6	(380.5)
Less: Accretion of beneficial conversion feature of redeemable preferred stock	(13.1)	—	—	—	—	(13.1)
Less: Redeemable preferred stock dividends	(0.5)	—	—	—	—	(0.5)
Net income (loss) available for common stock	$(394.1)	$(243.5)	$(39.0)	$ (240.1)	$ 522.6	$(394.1)
Net cash provided by (used in) operating activities	$ —	$ (80.7)	$ 2.2	$ (47.3)	$ 0.1	$(125.7)
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(37.7)	(1.1)	(60.5)	—	(99.3)
Investments in joint ventures and other	—	—	—	(0.5)	—	(0.5)
Acquisition of minority interests in consolidated subsidiaries	—	—	—	—	(0.1)	(0.1)
Proceeds from sale of investment in joint venture	—	20.4	—	—	—	20.4
Loans to joint venture	—	(5.0)	—	—	—	(5.0)
Proceeds from sales of property, plant and equipment	—	1.1	—	1.2	—	2.3
Net cash used in investing activities	—	(21.2)	(1.1)	(59.8)	(0.1)	(82.2)

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from financing activities:						
Intercompany loans	—	(52.4)	—	52.4	—	—
Intercompany loan repayments	—	49.0	—	(49.0)	—	—
Proceeds from senior credit facilities and other borrowings	—	125.0	—	—	—	125.0
Payments on capital lease obligation	—	(1.2)	—	—	—	(1.2)
Proceeds from redeemable preferred stock	—	98.6	—	—	—	98.6
Repayment of debt issuance costs	—	(3.1)	—	—	—	(3.1)
Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan	—	4.4	—	—	—	4.4
Net cash provided by financing activities	—	220.3	—	3.4	—	223.7
Effect of exchange rate changes on cash and cash equivalents	—	—	—	1.1	—	1.1
Net increase (decrease) in cash and cash equivalents	—	118.4	1.1	(102.6)	0.0	16.9
Cash and cash equivalents, beginning of period	—	44.9	(1.1)	145.1	—	188.9
Cash and cash equivalents, end of period	$ —	$ 163.3	$ 0.0	$ 42.5	$ 0.0	$ 205.8
For the nine months ended September 30, 2000						
Revenues	$ —	$1,744.6	$ 78.5	$ 937.1	$(1,179.7)	$1,580.5
Cost of sales	—	1,356.1	67.2	786.7	(1,179.7)	1,030.3
Gross profit	—	388.5	11.3	150.4	—	550.2
Research and development	—	26.4	7.0	15.2	—	48.6
Selling and marketing	—	71.9	1.4	—	—	73.3
General and administrative	—	146.3	4.2	24.5	—	175.0
Amortization of goodwill and other intangibles	—	—	10.9	—	—	10.9
Write-off of acquired in-process research and development	—	—	26.9	—	—	26.9
Restructuring and other charges	—	—	—	4.8	—	4.8
Total operating expenses	—	244.6	50.4	44.5	—	339.5
Operating income (loss)	—	143.9	(39.1)	105.9	—	210.7
Interest expense	—	(58.6)	(9.5)	(32.3)	—	(100.4)
Equity earnings	53.4	12.9	6.5	—	(68.5)	4.3
Income (loss) before taxes, minority interests and extraordinary loss	53.4	98.2	(42.1)	73.6	(68.5)	114.6
Provision for income taxes	—	(42.0)	19.4	(26.6)	7.4	(41.8)
Minority interests	—	—	—	—	(1.9)	(1.9)
Extraordinary loss	—	(17.5)	—	—	—	(17.5)
Net income (loss)	$53.4	$ 38.7	$(22.7)	$ 47.0	$ (63.0)	$ 53.4

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided by (used in) operating activities	—	158.7	7.7	57.1	—	223.5
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(36.3)	(7.1)	(82.6)	—	(126.0)
Investment in business, net of cash acquired	—	(253.2)	—	—	—	(253.2)
Investments in unconsolidated companies and joint ventures	—	(2.5)	—	—	—	(2.5)
Loans to unconsolidated joint venture	—	(23.0)	—	—	—	(23.0)
Proceeds from sales of property, plant and equipment	—	4.6	—	13.3	—	17.9
Net cash used in investing activities	—	(310.4)	(7.1)	(69.3)	—	(386.8)
Cash flows from financing activities:						
Proceeds from initial public offering, net of offering expenses	—	514.8	—	—	—	514.8
Borrowings from senior credit facilities	—	200.0	—	—	—	200.0
Payment of debt issuance costs	—	(3.2)	—	—	—	(3.2)
Repayment of senior credit facilities, including prepayment penalty	—	(131.5)	—	—	—	(131.5)
Repayment of senior subordinated notes	—	(156.8)	—	—	—	(156.8)
Redemption of preferred stock, including accrued dividends	—	(228.4)	—	—	—	(228.4)
Proceeds from exercise of stock options	—	1.0	—	—	—	1.0
Net cash provided by financing activities	—	195.9	—	—	—	195.9
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(0.1)	—	(0.1)
Net increase (decrease) in cash and cash equivalents	—	44.2	0.6	(12.3)	—	32.5
Cash and cash equivalents, beginning of period	—	14.9	—	111.9	—	126.8
Cash and cash equivalents, end of period	$ —	$ 59.1	$ 0.6	$ 99.6	—	$ 159.3

Note 9: Redeemable Preferred Stock

On September 7, 2001 the Company issued 10,000 shares of its Series A Cumulative Convertible Redeemable Preferred Stock to an affiliate of TPG. Net proceeds from the sale (after deducting issuance costs) were approximately $98.6 million. As of the issuance date, the preferred stock is convertible at any time into 35,460,993 shares of the Company's common stock at a price of $2.82 per share (subject to specified antidilution adjustments) 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, senior subordinated notes and other documents relating to the Company's indebtedness ("Debt Agreements").

The price of the Company's common stock on the date of the 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 are 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 was increased by the immediate $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 holder’s right to require the Company to redeem the preferred stock is subject to, and expressly conditioned upon, limitations under the Company’s Debt Agreements. The Company may also be required to redeem shares of the preferred stock in the event of a change of control of the Company, subject to the Company’s Debt Agreements. The holders of the preferred stock will be 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 is entitled to approximately 3,135 votes, subject to certain adjustments for accumulated dividends and those made in accordance with anti-dilution provisions found in the preferred stock documents.

Note 10: Commitments and Contingencies

The Company is currently involved in a variety of legal matters that arose 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 below, will have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

In July 2001 three purported stockholder class actions (“Shareholder Litigation”) were filed against the Company, certain officers and directors of the Company, and five investment banking firms who acted as underwriters in connection with our IPO in April 2000. The Shareholder Litigation was filed in the United States District Court — Southern District of New York and generally alleges that the IPO offering documents failed to disclose: (1) certain underwriter fees and commissions and (2) underwriter tie-in and other arrangements with certain customers of the underwriters that impacted the price of the Company’s stock in the aftermarket. The Shareholder Litigation is in the initial phases and the Company intends to vigorously defend against the suits.

Note 11: Related Party Transactions

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

	Quarter Ended September 28, 2001	Quarter Ended September 30, 2000	Nine Months Ended September 28, 2001	Nine Months Ended September 30, 2000
Purchases of manufacturing services from Motorola	$23.6	$40.7	$79.1	$121.2
Cost of other services, rent and equipment purchased from Motorola	$ 1.2	$22.7	$16.9	$ 69.4

Note 12: Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which establishes standards for the accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and hedging activities became effective for the Company as of January 1, 2001.

The Company's interest rate swaps in effect at January 1, 2001 have been designated as cash flow hedges, are measured at fair value and recorded as assets or liabilities in the consolidated balance sheet. Upon the adoption of SFAS 133, the Company recorded an after-tax charge of approximately $3.4 million to accumulated other comprehensive income (loss) as of January 1, 2001. This charge consists of an approximate $2.1 million adjustment necessary to record the Company's interest rate swaps in the consolidated balance sheet at their estimated fair values as well as the write-off of an approximate $3.5 million deferred charge (included in other assets in the accompanying consolidated balance sheet at December 31, 2000) relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under the Company's senior bank facilities, both before income taxes of approximately $2.2 million. The Company recorded a $6.7 million after-tax charge to accumulated other comprehensive income during the first nine months of 2001 to adjust its cash flow hedge to fair-value at September 28, 2001.

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

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. Goodwill and indefinite lived intangible assets will no longer be amortized, but are required to be tested for impairment annually or whenever events or circumstances indicate that the related carrying amount exceeds fair value. SFAS 142 is effective for fiscal years beginning after December 15, 2001 except for goodwill acquired in a business acquisition occurring after June 30, 2001, which will not be amortized. At September 28, 2001, the Company had unamortized goodwill and indefinite lived intangible assets of $80.0 million related to the Cherry acquisition that will be impacted by this new standard. Annual amortization of these intangible assets approximates $10.6 million, which will be discontinued in 2002 as a result of this standard.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". The new standard, which is effective for the Company in 2003, requires companies to recognize asset retirement obligations (ARO's) when a reasonable estimate of the related fair value can be made. The liability will be recognized with an offsetting increase in the related asset and will impact earnings as the asset is depreciated. The Company does not expect the implementation of SFAS 143 to have a material effect on its results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 is effective for the Company as of January 1, 2001. The Company does not expect the implementation of SFAS 144 to have a material effect on its 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 consolidated financial statements and related notes thereto as of and for the year ended December 31, 2000 included in our Form 10-K filed with the SEC on March 30, 2001. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to certain factors, including those discussed below and elsewhere in this Form 10-Q and Exhibit 99.1 hereto.

ON Semiconductor is a global supplier of high performance broadband and power management integrated circuits and standard semiconductors used in numerous advanced devices ranging from high speed fiber optic networking equipment to the precise power management functions found in today's advanced portable electronics.

Recent developments. During the first nine months of 2001, we experienced slowing demand and pricing pressures for our products as customers delayed or cancelled bookings in order to manage their inventories in line with incoming business. The terrorist attacks of September 11, 2001 are expected to further depress economic activity and demand for end-user products. During the third quarter of 2001, market demand began to show signs of stabilization as customer orders across all product families were up from the second quarter of 2001 and the book-to-bill ratio was greater than one for the first time in over a year. However, given the macroeconomic concerns that exist in the near term, we anticipate fourth quarter revenues to be flat to slightly down from the third quarter.

In the fourth quarter of 2000 we began to implement a phased cost reduction plan ("the Plan"), which includes strict expense controls, reduced capital expenditures, restructuring of our manufacturing operations and reductions in selling and administrative costs. As a result of these efforts, we incurred restructuring and other charges of $133.8 million in the first nine months of 2001. The three principal elements of the Plan that were implemented in the second quarter of 2001 were: accelerating a five-year manufacturing restructure plan into a two-year plan; reducing our selling and administrative costs; and aggressively focusing on liquidity. We expect the actions implemented in the second quarter of 2001, the savings from which will not be fully realized until 2002, will ultimately generate annualized savings of approximately $300 million. As of the end of the third quarter of 2001, we have realized $175 million of annualized savings from actions implemented in the second quarter of 2001.

At June 29, 2001, we were not in compliance with the minimum interest expense coverage ratio and leverage ratio covenants related to our senior bank facilities. As of August 13, 2001 we received a waiver in respect of such noncompliance at June 29, 2001 and in respect of any future noncompliance with such covenants through December 31, 2002. In connection with such waiver, we have amended our senior bank facilities. The key terms of this amendment are as follows:

- Minimum interest expense coverage ratio and leverage ratio requirements for periods between January 1, 2003 through December 31, 2005 were reduced, maximum capital expenditure limits were reduced and covenants requiring the maintenance of a minimum cash and cash equivalent balance until certain financial ratios are achieved and minimum EBITDA levels through December 31, 2002 were added;

- We were required to obtain $100 million through an equity investment from our principal shareholder, an affiliate of Texas Pacific Group, ("TPG") by September 7, 2001. We satisfied this requirement on September 7, 2001, when we issued 10,000 shares of redeemable preferred stock to an affiliate of TPG in exchange for $100 million ($98.6 million, net of issuance costs);

- The interest rate spread on outstanding borrowings increased to 3.0% with respect to alternate base rate loans and 4.0% with respect to Eurodollar loans. Payment of such interest is required on a monthly basis. Additionally, a supplemental interest charge of 2.0% accrues through September 30, 2001, increasing to 3.0% for the period October 1, 2001 through March 31, 2003. Fifty percent of such supplemental interest must be paid by March 31, 2003 with the balance due by June 30, 2003. To the extent that the full amount of such supplemental interest is not paid on March 31, 2003, additional

supplemental interest for the period of March 31, 2003 through June 30, 2003 will accrue at a rate of 3.0% on a portion of the outstanding borrowings, which portion is equal to the percentage of supplemental interest accrued but unpaid on March 31, 2003. Such additional supplemental interest will be due by June 30, 2003. As a result of these amendments, our interest expense on an annual basis is expected to increase by approximately $36.1 million; and

- Certain mandatory prepayment provisions contained in the original agreement were revised.

We were in compliance with the revised covenants outlined above at September 28, 2001.

Recapitalization and Initial Public Offering. Immediately prior to our August 4, 1999 recapitalization (the “Recapitalization”), we were a wholly-owned subsidiary of Motorola. We held and continue to hold, through direct and indirect subsidiaries, substantially all of the assets and operations of the Semiconductor Components Group of Motorola’s Semiconductor Products Sector (“SCG”). As part of our Recapitalization, affiliates of the TPG purchased our common shares from Motorola for $337.5 million, and we redeemed common stock held by Motorola for a total of approximately $952 million. As a result, TPG affiliates owned approximately 91% and Motorola owned approximately 9% of our voting common stock. To finance a portion of the Recapitalization, Semiconductor Components Industries, LLC (“SCI LLC”), our primary domestic operating subsidiary, borrowed $740.5 million under senior secured bank facilities, we and SCI LLC issued $400 million of senior subordinated notes and SCI LLC issued a $91 million junior subordinated note to Motorola. We also issued mandatorily redeemable preferred stock with a total liquidation preference of $209 million to Motorola and TPG affiliates. Because TPG affiliates did not acquire substantially all of SCG’s common stock, the basis of SCG’s assets and liabilities for financial reporting purposes was not impacted by our Recapitalization. At the time of the Recapitalization, Motorola agreed to provide us with transition and manufacturing services in order to facilitate our transition to a stand-alone company independent of Motorola.

On May 3, 2000, we completed the initial public offering of our common stock (the “IPO”), selling 34.5 million shares with an issue price of $16 per share. Net proceeds from the IPO (after deducting issuance costs) were approximately $514.8 million. The net proceeds were used to redeem all outstanding preferred stock (including accrued dividends), redeem a portion of the senior subordinated notes and prepay a portion of the loans outstanding under the senior bank facilities.

As described above, we utilized a portion of the net proceeds from our IPO to redeem a portion of our senior subordinated notes and prepay a portion of the loans outstanding under our senior bank facilities. In connection therewith, we incurred prepayment penalties and redemption premiums of $17.3 million and wrote off $11.9 million of debt issuance costs. These amounts, totaling $29.2 million ($17.5 million or $0.11 per share, net of income taxes), have been classified as an extraordinary loss in the accompanying consolidated statements of operations for the nine months ended September 30, 2000.

On September 7, 2001, we closed a $100,000,000 investment in the Company by TPG, our majority stockholder. In connection with this investment, an affiliate of TPG purchased 10,000 shares of the Company’s Series A cumulative convertible preferred stock with a stated value of $10,000 per share.

Acquisition. On April 3, 2000, we acquired all of the outstanding capital stock of Cherry Semiconductor Corporation (“Cherry”) for approximately $250 million in cash, which was financed with cash on hand and borrowings of $220 million under our senior bank facilities. Cherry, which was renamed Semiconductor Components Industries of Rhode Island, Inc., designs and manufactures analog and mixed signal integrated circuits for the power management and automotive markets, and had revenues for its fiscal year ended February 29, 2000 of $129.1 million.

The Cherry acquisition was accounted for using the purchase method of accounting and as a result, the purchase price plus related costs was allocated to the estimated fair value of assets acquired and liabilities

assumed at the time of the acquisition based on independent appraisals and management estimates as follows (in millions):

Fair value of tangible net assets	$ 71.3
Developed technology	59.3
In-process research and development	26.9
Assembled work force	10.0
Excess of purchase price over net assets acquired (goodwill)	85.7
	$253.2

Developed technology and assembled workforce are being amortized on a straight-line basis over estimated useful lives of five years while goodwill is being amortized over an estimated life of ten years.

The fair value of the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. Significant assumptions that had to be made in using this approach included revenue and operating margin projections and determination of the applicable discount rate. The fair value of acquired in-process research and development was based on sales forecasts and cost assumptions projected to be achievable by Cherry on a standalone basis. Operating margins were based on cost of goods sold and selling, general, and administrative expenses as a percentage of revenues. All projected revenue and cost information was based on historical results and trends and do not include any synergies or cost savings that may result from the acquisition. The rate used to discount future projected cash flows resulting from the acquired in-process research and development was 20 percent which was derived from a weighted average cost of capital analysis adjusted upward to reflect additional risks inherent in the development life cycle.

At the date of acquisition, the in-process research and development had not yet reached technological feasibility and no alternative future uses had been identified. Accordingly, these costs were expensed as of the acquisition date. The expected release dates for the products incorporating the acquired technology vary, but such products began to generate cash flows in 2001. The ultimate development of these technologies remains a significant risk due to the remaining efforts required to achieve technical viability, rapidly changing customer markets, uncertain standards for new products and significant competitive threats from numerous companies. The nature of the efforts to develop the acquired technology into commercially viable products consists principally of design and development, engineering and testing activities necessary to determine that the product can meet market expectations, including functionality and technical requirements. Failure to bring these products to market in a timely manner could result in a loss of market share, or a lost opportunity to capitalize on emerging markets, and could have a material adverse impact on our business and operating results.

The forecasts used in valuing the acquired in-process research and development were based upon assumptions we believe are reasonable; however, such assumptions may be incomplete or inaccurate, and unanticipated events and circumstances are likely to occur. There can be no assurance that the underlying assumptions used to estimate expected project sales or profits, or the events associated with such projects, will transpire as estimated. For these reasons, actual results may vary from the projected results.

Cherry’s results of operations have been included in our consolidated results from the date of acquisition. The following pro forma disclosures present the Company’s results of operations for the nine months ended September 30, 2000 as if we had acquired Cherry as of January 1, 2000 (in millions, except per share data):

Total revenues	$1,617.2
Net income before extraordinary loss	67.9
Net income	50.4
Diluted earnings per share before extraordinary loss	$ 0.37
Diluted earnings per share	$ 0.26

These amounts include the results of Cherry for the first quarter of 2000 and are adjusted to reflect interest and amortization charges that would have occurred had the purchase taken place on January 1, 2000. The amounts are based upon certain assumptions and estimates, and do not reflect any benefit from any cost savings which might be achieved from combined operations. The pro forma results are not indicative of the actual results that would have occurred had the acquisition been consummated as of January 1, 2000.

Results of Operations

Cumulative effect of accounting change. Effective January 1, 2001, we changed our accounting method for recognizing revenue on sales to distributors. Recognition of revenue and related gross profit on sales to distributors is now deferred until the distributor resells the product. Deferred income on sales to distributors was $117.0 million at September 28, 2001.

We believe that this accounting change is to a preferable method because it better aligns reported results with, focuses us on, and allows investors to better understand end user demand for the products we sell through distribution. This revenue recognition policy is commonly used in the semiconductor industry.

The cumulative effect of the accounting change for periods prior to January 1, 2001 was a charge of $155.2 million ($116.4 million or $0.67 per share, net of income taxes) and was recorded in the nine months ended September 28, 2001. The accounting change resulted in a reduction of our net loss in the nine months ended September 28, 2001 of $40.0 million, or $0.23 per share.

Earnings (loss) per common share. Our diluted earnings (loss) per share on an actual and adjusted basis for the quarter and nine months ended September 28, 2001, are as follows:

	Quarter Ended September 28, 2001		Quarter Ended September 30, 2000		Nine Months Ended September 28, 2001		Nine Months Ended September 30, 2000	
	in millions	**per share**	**in millions**	**per share**	**in millions**	**per share**	**in millions**	**per share**
Net income (loss) available for common stock	$(82.5)	$ (0.47)	$29.9	$ 0.17	$(394.1)	$ (2.27)	$44.6	$ 0.28
Plus (net of tax):								
Accretion of beneficial conversion feature on redeemable preferred stock	13.1	0.07	—	—	13.1	0.08	—	—
Write-off of acquired in-process research and development	—	—	—	—	—	—	16.1	0.09
Extraordinary loss	—	—	—	—	—	—	17.5	0.11
Amortization of goodwill and other intangibles	5.6	0.03	3.3	0.02	14.7	0.08	6.6	0.04
Restructuring and other charges	—	—	—	—	111.5	0.64	3.0	0.02
Cumulative effect of accounting change	—	—	—	—	116.4	0.67	—	—
Adjusted net income (loss) available for common stock	$(63.8)	$ (0.37)	$33.2	$ 0.19	$(138.4)	$ (0.80)	$87.8	$ 0.54
Weighted average common shares outstanding — diluted		173.9		177.1		173.4		161.9

Quarter Ended September 28, 2001 Compared To Quarter Ended September 30, 2000

Operating results for the quarters ended September 28, 2001 and September 30, 2000 follow. The September 30, 2000 pro forma column reflects our results as if the change in distributor revenue recognition

had been applied retroactively. The pro forma results are used for comparative purposes in the following discussion of our results of operations.

	Quarter Ended		
		September 30, 2000	
	September 28, 2001	Pro forma	As reported
	(in millions)		
Revenues:			
Net product revenues	$275.4	$519.7	$539.0
Foundry revenues	1.1	4.2	4.2
Total revenues	276.5	523.9	543.2
Cost of sales	240.3	333.9	349.2
Gross profit	36.2	190.0	194.0
Operating expenses:			
Research and development	18.1	20.3	20.3
Selling and marketing	14.8	27.5	27.5
General and administrative	33.5	64.4	64.4
Amortization of goodwill and other intangibles	5.6	5.4	5.4
Total operating expenses	72.0	117.6	117.6
Operating income (loss)	(35.8)	72.4	76.4
Other income (expenses), net:			
Interest expense	(34.5)	(31.9)	(31.9)
Equity in earnings of joint ventures	1.1	2.1	2.1
Other income (expenses)	(33.4)	(29.8)	(29.8)
Income (loss) before income taxes and minority interests	(69.2)	42.6	46.6
Provision for income taxes	—	(15.0)	(16.0)
Minority interests	0.3	(0.7)	(0.7)
Net income (loss)	(68.9)	26.9	29.9
Less: Accretion of beneficial conversion feature of redeemable preferred stock	(13.1)	—	—
Less: Redeemable preferred stock dividends	(0.5)	—	—
Net loss available for common stock	$ (82.5)	$ 26.9	$ 29.9

Total revenues. Total revenues decreased $247.4 million, or 47.2%, to $276.5 million in the third quarter of 2001 from $523.9 million in the third quarter of 2000, due primarily to reduced demand for our products resulting from the recent economic actions taken by our customers to manage their inventories in line with incoming business and the phasing out of the foundry revenues to Motorola.

Net product revenues. Net product revenues decreased $244.3 million, or 47.0%, to $275.4 million in the third quarter of 2001 from $519.7 million in the third quarter of 2000. The decrease occurred in all of our major product families. Approximately 75% of this decrease was due to reduced volume with the remainder due to reductions in selling prices, partially offset by increases due to changes in our product mix. Net revenues for discrete and standard logic products, which accounted for 62.4% of net product revenues in the third quarter of 2001, decreased 42.3% compared to the third quarter of 2000. Net revenues for standard analog products, which accounted for 31.2% of net product revenues in the third quarter of 2001, decreased 40.4% compared to the third quarter of 2000. Net revenues from broadband products, which accounted for 6.4% of net product revenues in the third quarter of 2001 decreased 77.2% from the third quarter of 2000.

Approximately 38%, 41% and 21% of our net product revenues in the third quarter of 2001 were derived from the Americas, Asia/ Pacific and Europe (including the Middle East), respectively, compared to 45%, 36% and 19%, respectively, in the third quarter of 2000.

Foundry revenues. Foundry revenues decreased $3.1 million, or 73.8%, to $1.1 million in the third quarter of 2001 from $4.2 million in the third quarter of 2000. These foundry revenues are a result of agreements made with Motorola during our separation. We expect that these revenues will continue to decline in the future. Motorola continues to be one of our largest original equipment manufacturer (OEM) customers.

Cost of sales. Cost of sales decreased $93.6 million, or 28.0%, to $240.3 million in the third quarter of 2001 from $333.9 million in the third quarter of 2000, mainly as a result of lower utilization caused by decreased sales volume and our planned inventory reduction, partially offset by cost restructuring initiatives.

Gross profit. Gross profit (computed as total revenues less cost of sales) decreased $153.8 million, or 80.9%, to $36.2 million in the third quarter of 2001 from $190.0 million in the third quarter of 2000. As a percentage of total revenues, gross margin declined to 13.1% (13.1% for product gross margin) in the third quarter of 2001 from 36.3% (36.8% for product gross margin) in the third quarter of 2000. The decline in gross margin was primarily due to lower factory utilization resulting from lower customer demand and our planned inventory reduction, lower selling prices, and a change in mix towards lower margin devices, partially offset by cost restructuring initiatives.

Operating expenses

Research and development. Research and development costs decreased $2.2 million, or 10.8%, to $18.1 million in the third quarter of 2001 from $20.3 million in the third quarter of 2000. As a percentage of net product revenues, research and development costs increased to 6.6% in the third quarter of 2001 from 3.9% in the third quarter of 2000 because of decreased revenues accompanied by increased spending on new product development, primarily as a result of our efforts to continue to develop our power management and broadband portfolios. We introduced 99 new products in the third quarter of 2001. The main emphasis of our new product development is in power management and broadband applications with eighty percent of our overall research and development investment targeted in these areas. Our long-term target for research and development costs is 5-6% of revenues.

Selling and marketing. Selling and marketing expenses decreased by $12.7 million, or 46.2%, to $14.8 million in the third quarter of 2001 from $27.5 million in the third quarter of 2000 as a result of our restructuring actions. As a percentage of net product revenues, these costs increased to 5.4% in the third quarter of 2001 from 5.3% in the third quarter of 2000 as a result of decreased net product revenues offset by cost savings resulting from our restructuring actions.

General and administrative. General and administrative expenses decreased by $30.9 million, or 48.0% to $33.5 million in the third quarter of 2001 from $64.4 million in the third quarter of 2000, as a result of cost reduction actions and lower discretionary spending. The major reductions were associated with workforce reductions, elimination of the regional infrastructure, elimination of bonuses, and lower use of consultants.

Amortization of goodwill and other intangibles. Amortization of goodwill and other intangibles was $5.6 million in third quarter of 2001 compared to $5.4 million for the third quarter of 2000. The amortization relates to the intangible assets that were acquired with Cherry in the second quarter of 2000, including amounts related to developed technology, assembled workforce and goodwill.

Operating income (loss). Operating income (loss) decreased $108.2 million, to a $35.8 million operating loss in the third quarter of 2001 compared to operating income of $72.4 million in the third quarter of 2000. This decrease was due to decreased net product revenues and reduced gross margins, partially offset by lower operating expenses.

Interest expense. Interest expense increased $2.6 million, or 8.2% to $34.5 million in the third quarter of 2001 from $31.9 million in the third quarter of 2000. The increase related to the $125.0 million drawn on our revolving line of credit during second quarter of 2001 and as a result of increased interest rates related to the

amendments to our senior bank facilities (See "Recent Developments"). Our interest expense on an annual basis is expected to increase by approximately $29.5 million due to these amendments.

Equity in earnings of joint ventures. Equity in earnings of joint ventures decreased $1.0 million to $1.1 million in the third quarter of 2001 from $2.1 million in the third quarter of 2000, due primarily to the February 2001 sale of our interest in our SMP joint venture.

Minority interests. Minority interests represent the portion of net income (loss) of two Czech joint ventures attributable to the minority owners of each joint venture. We consolidate these joint ventures in our financial statements. Minority interests were $0.3 million of income in the third quarter of 2001 compared to $0.7 million of expense in the third quarter of 2000, as the two Czech joint ventures operated at a loss in the third quarter of 2001, due to lower demand.

Income tax (provision) benefit. The income tax (provision) benefit was $0 in the third quarter of 2001 compared with an income tax provision of $15.0 million in the third quarter of 2000. The 2001 amount was attributable to the net effect of deferred tax benefits recognized for certain operating losses incurred during the quarter outside of the U.S. offset by a valuation allowance established for other such losses incurred during the quarter. The valuation allowance resulted from our decision to limit the recognition of such deferred tax benefits to the amount that could be recovered via carry-back. A significant portion of our third quarter 2001 operating loss was incurred in a country with a 0% tax rate and, therefore, no future tax benefits are available with respect to this loss.

Nine Months Ended September 28, 2001 Compared To Nine Months Ended September 30, 2000

Operating results for the nine months ended September 28, 2001 and September 30, 2000 follow. The September 30, 2000 pro forma column reflects our results as if the change in distributor revenue recognition had been applied retroactively. The pro forma results are used for comparative purposes in the following discussion of our results of operations.

	Nine Months Ended		
		September 30, 2000	
	September 28, 2001	Pro forma	As reported
		(in millions)	
Revenues:			
Net product revenues	$ 939.7	$1,429.1	$1,521.5
Foundry revenues	8.0	59.0	59.0
Total revenues	947.7	1,488.1	1,580.5
Cost of sales	769.8	979.6	1,030.3
Gross profit	177.9	508.5	550.2
Operating expenses:			
Research and development	63.9	48.6	48.6
Selling and marketing	59.4	73.3	73.3
General and administrative	104.3	175.0	175.0
Amortization of goodwill and other intangibles	17.0	10.9	10.9
Write-off of acquired in-process research and development	—	26.9	26.9
Restructuring and other charges	133.8	4.8	4.8
Total operating expenses	378.4	339.5	339.5
Operating income (loss)	(200.5)	169.0	210.7

	Nine Months Ended		
		September 30, 2000	
	September 28, 2001	Pro forma	As reported
		(in millions)	
Other income (expenses), net:			
Interest expense	(93.4)	(100.4)	(100.4)
Equity in earnings of joint ventures	3.2	4.3	4.3
Gain on sales of investment in joint venture	3.1	—	—
Other income (expenses)	(87.1)	(96.1)	(96.1)
Income before income taxes, minority interests, extraordinary loss and cumulative effect of accounting change	(287.6)	72.9	114.6
Income tax benefit (provision)	22.7	(31.4)	(41.8)
Minority interests	0.8	(1.9)	(1.9)
Net income (loss) before extraordinary loss and cumulative effect of accounting change	(264.1)	39.6	70.9
Extraordinary loss on prepayment of debt (net of tax)	—	(17.5)	(17.5)
Cumulative effect of accounting change (net of tax)	(116.4)	—	—
Net income (loss)	(380.5)	22.1	53.4
Less: Accretion of beneficial conversion feature of redeemable preferred stock	(13.1)	—	—
Less: Redeemable preferred stock dividends	(0.5)	(8.8)	(8.8)
Net income (loss) available for common stock	$(394.1)	$ (13.3)	$ 44.6

Total revenues. Total revenues decreased $540.4 million, or 36.3%, to $947.7 million in the first nine months of 2001 from $1,488.1 million in the first nine months of 2000, due to reduced demand for our products resulting from the recent economic downturn, actions taken by our customers to manage their inventories in line with incoming business and the phasing out of foundry revenues to Motorola.

Net product revenues. Net product revenues decreased $489.4 million, or 34.2%, to $939.7 million in the first nine months of 2001 from $1,429.1 million in the first nine months of 2000. The decrease occurred in all of our major product families. Approximately 72% of this decrease was due to reduced volume with the remainder due to reductions in selling prices, partially offset by increases due to changes in our product mix. Net revenues for discrete and standard logic products, which accounted for 60.0% of net product revenues in the first nine months of 2001, decreased 32.2% compared to the first nine months of 2000. Net revenues for standard analog products, which accounted for 29.1% of net product revenues in the first nine months of 2001, decreased 26.4% compared to the first nine months of 2000. Net revenues from broadband products, which accounted for 10.9% of net product revenues in the first nine months of 2001 decreased 54.4% from the first nine months of 2000.

Approximately 41%, 37% and 22% of our net product revenues in the first nine months of 2001 were derived from the Americas, Asia/ Pacific and Europe (including the Middle East), respectively, compared to 46%, 33% and 21%, respectively, in the first nine months of 2000.

Foundry revenues. Foundry revenues decreased $51.0 million, or 86.4%, to $8.0 million in the first nine months of 2001 from $59.0 million in the first nine months of 2000. These foundry revenues are a result of agreements made with Motorola during our separation. We expect that these revenues will continue to decline in the future. Motorola continues to be one of our largest original equipment manufacturer (OEM) customers.

Cost of sales. Cost of sales decreased $209.8 million, or 21.4%, to $769.8 million in the first nine months of 2001 from $979.6 million in the first nine months of 2000, mainly as a result of lower utilization caused by decreased sales volume and our planned inventory reduction, partially offset by cost restructuring initiatives.

Gross profit. Gross profit (computed as total revenues less cost of sales) decreased $330.6 million, or 65.0%, to $177.9 million in the first nine months of 2001 from $508.5 million in the first nine months of 2000.

As a percentage of total revenues, gross margin declined to 18.8% (18.7% for product gross margin) in the first nine months of 2001 from 34.2% (35.2% for product gross margin) in the first nine months of 2000. The decline in gross margin was primarily due to lower factory utilization resulting from lower customer demand and our planned inventory reduction, lower selling prices, and a change in mix towards lower margin devices, partially offset by cost restructuring initiatives.

Operating expenses

Research and development. Research and development costs increased $15.3 million, or 31.5%, to $63.9 million in the first nine months of 2001 from $48.6 million in the first nine months of 2000, primarily as a result of our efforts to continue to develop our power management and broadband portfolios. As a percentage of net product revenues, research and development costs increased to 6.8% in the first nine months of 2001 from 3.4% in the first nine months of 2000 because of decreased revenue accompanied by increased spending on new product development. We introduced 275 new products in the first nine months of 2001. The main emphasis of our new product development is in power management and broadband applications with eighty percent of our overall research and development investment targeted in these areas. Our long-term target for research and development costs is 5-6% of revenues.

Selling and marketing. Selling and marketing expenses decreased by $13.9 million, or 19.0%, to $59.4 million in the first nine months of 2001 from $73.3 million in the first nine months of 2000 as a result of our restructuring actions. As a percentage of net product revenues, these costs increased to 6.3% in the first nine months of 2001 from 5.1% in the first nine months of 2000 as a result of decreased net product revenues offset by cost savings resulting from our restructuring actions.

General and administrative. General and administrative expenses decreased by $70.7 million, or 40.4% to $104.3 million in the first nine months of 2001 from $175.0 million in the first nine months of 2000, as a result of cost reduction actions and lower discretionary spending. The major reductions were associated with workforce reductions, elimination of the regional infracture, elimination of bonuses, and lower use of consultants.

Amortization of goodwill and other intangibles. Amortization of goodwill and other intangibles was $17.0 million in first nine months of 2001 compared to $10.9 million for the first nine months of 2000. The amortization relates to the intangible assets that were acquired with Cherry in the second quarter of 2000, including amounts related to developed technology, assembled workforce and goodwill.

Write-off of acquired in-process research and development. In the first nine months of 2000, we incurred a $26.9 million charge for the write-off of acquired in-process research and development resulting from the Cherry acquisition. No such charges were incurred in the first nine months of 2001.

Restructuring and other charges. In June 2001, we recorded a $95.8 million charge to cover costs associated with a worldwide restructuring program. This program includes phasing out of manufacturing operations at our Guadalajara, Mexico facility, transferring certain manufacturing activities performed at our Aizu, Japan and Seremban, Malaysia facilities to other Company-owned facilities or to third party contractors and consolidation of other operations. The charge included $43.6 million to cover employee separation costs associated with the termination of approximately 3,200 employees, asset impairments of $42.2 million and $10.0 million of other costs primarily related to facility closures and contract terminations. The asset impairments were charged directly against the related assets. Employee separation costs included $1.1 million of non-cash charges associated with the acceleration of vesting of stock options for terminated employees and $6.1 million for additional pension charges related to terminated employees. As of September 28, 2001, the remaining liability relating to this restructuring was $30.0 million. As of September 28, 2001, 1,703 employees have been terminated under this restructuring plan.

In March 2001, we recorded a $34.2 million charge to cover costs associated with a worldwide restructuring program involving manufacturing locations as well as selling and administrative functions. The charge included $31.3 million to cover employee separation costs associated with the termination of approximately 1,100 employees and $2.9 million for asset impairments that were charged directly against the

related assets. As of September 28, 2001, the remaining liability relating to this restructuring was $1.4 million. As of September 28, 2001, 1,015 employees have been terminated under this restructuring plan.

Also in March 2001, we recorded a $3.8 million charge to cover costs associated with the separation of one of our executive officers. In connection with the separation, we paid the former executive officer $1.9 million. In addition, we agreed to accelerate the vesting of his remaining outstanding stock options and to allow such options to remain exercisable for the remainder of their ten-year term. We recorded a non-cash charge of $1.9 million related to the modification of these options.

In March 2000, we recorded a $4.8 million charge to cover costs associated with a restructuring program at our manufacturing facility in Guadalajara, Mexico. The charge included $3.2 million to cover employee separation costs associated with the termination of approximately 500 employees and $1.6 million for asset impairments that were charged directly against the related assets. As of September 28, 2001 there was no remaining liability related to this restructuring program.

A summary of activity in the our restructuring reserves for the nine months ended September 28, 2001 is as follows (in millions):

	Balance as of December 31, 2000	Additional Reserves	Amounts Used	Balance as of September 28, 2001
Facility closure and other exit costs	$ —	$10.0	$ —	$10.0
Employee separations	0.7	67.7	(47.0)	21.4
Total restructuring	$0.7	$77.7	$(47.0)	$31.4

Operating income (loss). Operating income (loss) decreased $369.5 million, to a $200.5 million operating loss in the first nine months of 2001 compared to operating income of $169.0 million in the first nine months of 2000. This decrease was due to decreased net product revenues, reduced product margins, costs associated with our worldwide restructuring program and the amortization of goodwill and other intangibles. We expect the actions implemented in the second quarter of 2001, the savings from which will not be fully realized until 2002, will ultimately generate annualized savings of approximately $300 million. As of the end of the third quarter of 2001, we have realized $175 million of annualized savings from actions implemented in the second quarter of 2001. Excluding restructuring and other charges, the operating loss for the nine months ended September 28, 2001 would have been $66.7 million compared to operating income of $173.8 million for the nine months ended September 30, 2000.

Interest expense. Interest expense decreased $7.0 million, or 7.0% to $93.4 million in the first nine months of 2001 from $100.4 million in the first nine months of 2000. The decrease was due the redemption of a portion of the senior subordinated notes and prepayment of a portion of the loans outstanding under the senior bank facilities with the proceeds from our IPO in 2000. The decrease was partially offset by interest related to the $125.0 million drawn on our revolving line of credit in May 2001 and as a result of increased interest rates related to the amendments to our senior bank facilities (See “Recent Developments”). Our interest expense on an annual basis is expected to increase by approximately $29.5 million due to these amendments.

Equity in earnings of joint ventures. Equity in earnings from joint ventures decreased $1.1 million to $3.2 million in the first nine months of 2001 from $4.3 million in the first nine months of 2000, due primarily to the February 2001 sale of our interest in our Semiconductor Miniatures Products Malaysia Sdn. Bhd. (“SMP”) joint venture.

Gain on sale of investment in joint venture. We had a 50% interest in SMP. As a part of the joint venture agreement, our joint venture partner, Philips Semiconductors International B.V. (“Philips”), had the right to purchase our interest in SMP between January 2001 and July 2002. On February 1, 2001, Philips exercised its purchase right, acquiring our 50% interest in SMP. This transaction resulted in proceeds of approximately $20.4 million and a pre-tax gain of approximately $3.1 million.

Minority interests. Minority interests represent the portion of net income (loss) of two Czech joint ventures attributable to the minority owners of each joint venture. We consolidate these joint ventures in our financial statements. Minority interests decreased $2.7 million to $0.8 million of income in the first nine months of 2001 compared to $1.9 of expense million in the first nine months of 2000 due to lower demand.

Income tax (provision) benefit. The income tax (provision) benefit was a $22.7 million benefit in the first nine months of 2001 compared with an income tax provision of $31.4 million in the first nine months of 2000. The 2001 amount was attributable to the net effect of deferred tax benefits recognized for operating losses incurred during the period outside of the U.S. offset by a valuation allowance established for a portion of such losses incurred in the U.S. The valuation allowance resulted from our decision to limit the recognition of such deferred tax benefits to the amount that could be recovered via carry-back. It should be noted that a significant portion of the operating loss for the first six months of 2001 was incurred in a country with a 0% tax rate and, therefore, no future tax benefits are available.

Liquidity and Capital Resources

For the first nine months of 2001, net cash used in operating activities was $125.7 million compared to $223.5 million net cash provided by operating activities for the corresponding period of 2000. This was due primarily to the net loss of $380.5 million, adjusted for non-cash charges, including depreciation and amortization of $127.9 million, $45.1 million for the impairment of property, plant and equipment and $116.4 million relating to the cumulative effect of accounting change relating to the revenue recognition on sales to distributors, offset by $24.1 million in deferred income taxes. Cash used in operating activities was also affected by changes in assets and liabilities including decreases in accounts receivable and inventories of $118.7 million and $34.6 million, respectively, and an increase in other long-term liabilities of $1.7 million. These amounts were offset by an $18.6 million increase in other assets as well as decreases of $35.3 million in accounts payable, $34.1 million in accrued expenses, $16.8 million in income taxes payable, $8.7 million in accrued interest and $65.2 million in deferred income on sales to distributors. The decreases in accounts receivable and accounts payable were due to lower levels of sales and purchases, respectively.

Net cash used in investing activities was $82.2 million for the first nine months of 2001 compared to $386.8 million for the first nine months of 2000. The net cash outflows consisted of $99.3 million for purchases of property, plant and equipment, $5.0 million for loans to an unconsolidated joint venture, $0.5 for investments in unconsolidated subsidiaries and $0.1 for acquisition of minority interests of our two Czech joint ventures. These outflows were partially offset by proceeds of $20.4 million related to the sale our interest in the SMP joint venture and proceeds of $2.3 million related to sales of property, plant and equipment.

Net cash provided by financing activities was $223.7 million for the first nine months of 2001 compared to $195.9 for the first nine months of 2000. Cash inflows consisted of proceeds of $125.0 million from our revolving line of credit, $98.6 net proceeds from the issuance of preferred stock, $3.8 million from the issuance of common stock under our employee stock purchase plan and $0.6 million from stock option exercises, offset by payments of $1.2 for our capital lease obligation and $3.1 million in costs related to the amendment to our senior bank facilities.

At September 28, 2001, we had net deferred tax assets of $397.4 million as a result of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Although there can be no assurance, we believe that our net deferred tax assets will be recoverable from future operations. Should business conditions worsen or continue to be depressed for an extended period, we will be required to record a valuation allowance for all or a portion of our net deferred tax assets.

As of September 28, 2001, long-term debt (including current maturities) totaled $1,394.9 million, redeemable preferred stock totaled $99.1 million and we had a stockholders' deficit of $47.4 million. Long-term debt included $997.0 million under our senior bank facilities (including our revolving line of credit), $260.0 million senior subordinated notes, $112.3 million in respect of our junior subordinated note payable to Motorola, a $23.8 million note payable to a Japanese bank, and a capital lease of $1.8 million. We are required to begin making principal payments on our senior bank facilities in the fourth quarter of 2001.

As of September 28, 2001, $10.0 million of our $150 million revolving facility was available, reflecting borrowings of $125.0 million and outstanding letters of credit of $15.0 million. Under certain circumstances, the terms of our credit agreements allow us to incur additional indebtedness, although there can be no assurances that we would be able to borrow on terms acceptable to us.

The senior bank facilities require us to maintain compliance with certain covenants and restrictions. At June 29, 2001, we were not in compliance with the minimum interest expense coverage ratio and leverage ratio covenants. As of August 13, 2001, we received a waiver in respect of such noncompliance at June 29, 2001 and in respect of any future noncompliance with such covenants through December 31, 2002. In connection with such waiver, we have amended our senior bank facilities. The key terms of this amendment are as follows:

- Minimum interest expense coverage ratio and leverage ratio requirements for periods between January 1, 2003 through December 31, 2005 were reduced, maximum capital expenditure limits were reduced and covenants requiring the maintenance of a minimum cash and cash equivalent balance until certain financial ratios are achieved and minimum EBITDA levels through December 31, 2002 were added;

- We were required to obtain $100 million through an equity investment from our principal shareholder, an affiliate of TPG, by September 7, 2001. We satisfied this requirement on September 7, 2001, when we issued 10,000 shares of redeemable preferred stock to an affiliate of TPG in exchange for $100 million ($98.6 million, net of issuance costs);

- The interest rate spread on outstanding borrowings will increase to 3.0% with respect to alternate base rate loans and 4.0% with respect to Eurodollar loans. Payment of such interest is required on a monthly basis. Additionally, a supplemental interest charge of 2.0% accrues through September 30, 2001, increasing to 3.0% for the period October 1, 2001 through March 31, 2003. Fifty percent of such supplemental interest must be paid by March 31, 2003 with the balance due by June 30, 2003. To the extent that the full amount of such supplemental interest is not paid on March 31, 2003, additional supplemental interest for the period of March 31, 2003 through June 30, 2003 will accrue at a rate of 3.0% on a portion of the outstanding borrowings, which portion is equal to the percentage of supplemental interest accrued but unpaid on March 31, 2003. Such additional supplemental interest will be due by June 30, 2003. As a result of these amendments, our interest expense on an annual basis is expected to increase by approximately $36.1 million; and

- Certain mandatory prepayment provisions contained in the original agreement were revised.

We were in compliance with the revised covenants outlined above at September 28, 2001, and we believe that, pursuant to our current business plans, we will be able to maintain such compliance.

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

Our primary future cash needs, both in the short term and in the long term will focus on debt service and working capital. We have rescheduled our capital purchases with suppliers throughout the year and anticipate significantly reduced capital spending in the fourth quarter of 2001 as compared to quarterly spending in 2000 and the first nine months of 2001. Our liquidity needs may also be supplemented with the proceeds from targeted sales of assets. As part of our business strategy, we review acquisition and divestiture opportunities and proposals on a regular basis. Based on our business plans, we believe cash on hand and cash flow from operations will be sufficient to service our indebtedness and fund our other liquidity needs through December 31, 2002. To the extent that actual results or events differ from our financial projections and business plans our liquidity may be adversely affected.

Historically, our revenues have been affected by the seasonal trends of the semiconductor and related industries. As a result of these trends, we typically experienced sales increases in the first two quarters of the

year and relatively flat sales levels in the third and fourth quarters. However, over the past three years, various events have disrupted this pattern. In 1998, third quarter revenues declined, primarily as a result of the Asian economic crisis. In 1999, third and fourth quarter revenues increased due to the continuing recovery in the semiconductor market. In the fourth quarter of 2000 and the first three quarters of 2001 revenues declined due to slowing demand in the semiconductor market and a general economic decline.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended establishes standards for the accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and hedging activities became effective for us as of January 1, 2001.

Our interest rate swaps in effect at January 1, 2001 have been designated as cash flow hedges, are measured at fair value and recorded as assets or liabilities in the consolidated balance sheet. Upon the adoption of SFAS 133 we recorded an after-tax charge of approximately $3.4 million to accumulated other comprehensive income (loss) as of January 1, 2001. This charge consists of an approximate $2.1 million adjustment necessary to record our interest rate swaps in the consolidated balance sheet at their estimated fair values as well as the write-off of an approximate $3.5 million deferred charge (included in other assets in the accompanying consolidated balance sheet at December 31, 2000) relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under our senior bank facilities, both before income taxes of approximately $2.2 million. We recorded a $6.7 million after-tax charge to accumulated other comprehensive income during the first nine months of 2001 to adjust our cash flow hedges to fair-value at September 28, 2001.

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

In June 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 142, “Goodwill and Other Intangible Assets”. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. Goodwill and indefinite lived intangible assets will no longer be amortized, but are required to be tested for impairment annually or whenever events or circumstances indicate that the related carrying amount exceeds fair value. SFAS 142 is effective for fiscal years beginning after December 15, 2001 except for goodwill acquired in a business acquisition occurring after June 30, 2001, which will not be amortized. At September 28, 2001, we had unamortized goodwill and other intangible assets of $80.0 million related to the Cherry acquisition that will be impacted by this new standard. Annual amortization of these intangible assets approximates $10.6 million, which will be discontinued in 2002 as a result of this standard.

In August 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations”. The new standard, which is effective for us in 2003, requires companies to recognize asset retirement obligations (ARO’s) when a reasonable estimate of the related fair value can be made. The liability will be recognized with an offsetting increase in the related asset and will impact earnings as the asset is depreciated. We do not expect the implementation of SFAS 143 to have a material effect on our results of operations.

In October 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, SFAS 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 is effective for us as of January 1, 2001. We do not expect the implementation of SFAS 144 to have a material effect on our results of operations.

Business Risks and Forward-Looking Statements

This Quarterly Report on Form 10-Q includes “forward-looking statements” as that term is defined in Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “will,” “intends,” “plans,” or “anticipates,” or by discussions of strategy, plans or intentions. All forward-looking statements in the Form 10-Q are made based on management’s current expectations and estimates, which involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in forward-looking statements. Among these factors are our recently incurred substantial operating losses and possible future losses, changes in overall economic conditions, the cyclical nature of the semiconductor industry, changes in demand and average selling prices for our products, changes in inventories at our customers and distributors, technological and product development risks, availability of manufacturing capacity, availability of raw materials, competitors’ actions, loss of key customers, order cancellations or reduced bookings, changes in manufacturing yields, restructuring programs and the impact of such programs, control of costs and expenses, inability to reduce manufacturing and selling, general and administrative costs, litigation, risks associated with acquisitions and dispositions, changes in management, risks associated with our substantial leverage and restrictive covenants in our debt instruments (including those relating to the increased cost of servicing our debt and complying with the additional restrictions imposed as a result of the amendment to our senior credit facilities), possible future delisting of our common stock by Nasdaq, risks associated with our international operations and terrorist activities both in the United States and internationally, and risks involving environmental or other governmental regulation. Additional factors that could affect our future results or events are described from time to time in ON Semiconductor’s Securities and Exchange Commission reports. See in particular this Form 10-Q’s Exhibit 99.1, entitled “Risk Factors” and subsequently filed reports. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information.

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

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

As of September 28, 2001, our long-term debt (including current maturities) totaled $1,394.9 million. We have no interest rate exposure due to rate changes for our fixed rate interest bearing debt, which totaled $396.1 million or our capital lease obligation which totaled $1.8 million. We do have interest rate exposure with respect to the $997.0 million outstanding balance on our variable interest rate senior bank facilities however, we have entered into interest rate swaps to reduce this interest rate exposure. As of September 28, 2001, we had four interest rate swaps covering exposures on $255 million of our variable interest rate debt. A 50 basis point increase in interest rates would result in increased annual interest expense of $3.7 million for the next twelve months.

A majority of our revenue, expense and capital purchasing activities are transacted in U.S. dollars; however, as a multinational business, we also conduct these activities through transactions denominated in a variety of other currencies. We use forward foreign currency contracts to hedge firm commitments and reduce our overall exposure to the effects of currency fluctuations on our results of operations and cash flows. Gains and losses on these foreign currency exposures would generally be offset by corresponding losses and gains on the related hedging instruments. This strategy reduces, but does not eliminate, the short-term impact of foreign currency exchange rate movements. For example, changes in exchange rates may affect the foreign currency sales price of our products and can lead to increases or decreases in sales volume to the extent that the sales price of comparable products of our competitors are less or more than the sales price of our products.

PART II: OTHER INFORMATION

Item 1. ***Legal Proceedings***

The Company is currently involved in a variety of legal matters that arose 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 paragraph, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

In July 2001 three purported stockholder class actions ("Shareholder Litigation") were filed against us, certain of our officers and directors, and five investment banking firms who acted as underwriters in connection with our IPO in April 2000. The Shareholder Litigation was filed in the United States District Court — Southern District of New York and generally alleges that the IPO offering documents failed to disclose: (1) certain underwriter fees and commissions and (2) underwriter tie-in and other arrangements with certain customers of the underwriters that impacted the price of our stock in the aftermarket. The Shareholder Litigation is in the initial phases and we intend to vigorously defend against the suits.

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

(a) Not Applicable.

(b) Not Applicable.

(c) On September 7, 2001, we completed a $100,000,000 investment in the Company by Texas Pacific Group ("TPG"), our majority stockholder. In connection with this investment, an affiliate of TPG purchased 10,000 shares of our Series A cumulative convertible preferred stock with a stated value of $10,000 per share. There was no underwriter involved in this transaction. The Series A preferred stock was sold to TPG's affiliate in a private offered exempt from registration under Section 4(2) of the Securities Act of 1933.

Each share of Series A preferred stock is convertible at the option of the holder any time into shares of common stock at a conversion price of $2.82 per share of common stock, subject to customary anti-dilution adjustments. Shareholder approval (or waiver by the Nasdaq thereof) is required prior to the issuance of any shares of common stock upon conversion of the Series A preferred stock in excess of 19.9% of the number of shares of common stock outstanding on the closing date. At any time on or after the eighth anniversary of the issuance date of the Series A preferred stock, the holders may require that we redeem their shares at a redemption price equal to the greater of (i) the stated value of the Series A 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 Series A preferred stock is then convertible. Upon a change of control, the holders of the Series A preferred stock may "put" their shares to us at 101% of the stated value plus accumulated and unpaid dividends. The holders of the Series A preferred stock were also granted registration rights in respect of the common stock underlying the preferred stock.

See the Form 8-K Current Report filed on September 7, 2001 for additional information with respect to the Series A preferred stock. This Form 8-K is incorporated herein by reference.

(d) Not Applicable.

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

Not Applicable

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

Not Applicable

Item 5. ***Other Information***

Not Applicable.

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

(a) Exhibits —

Exhibit Number	Exhibit Description
99.1	Risk Factors

(b) Reports on Form 8-K —

During the third quarter of 2001, the Company filed two reports on Form 8-K (1) dated July 25, 2001 and filed July 26, 2001, and (2) dated and filed September 7, 2001. The July 25, 2001 report was filed pursuant to Items 5 and 7, reported the Company's second quarter 2001 results and included as an exhibit a press release dated July 25, 2001 titled "ON Semiconductor Announces Second Quarter 2001 Results." The September 7, 2001 report was filed pursuant to Items 5 and 7, announced the closing of a $100 million convertible preferred stock investment in the Company by TPG and included as exhibits certain documents pertaining to the preferred stock and a press release dated September 7, 2001 titled "ON Semiconductor Receives $100 Million Equity Investment from Texas Pacific Group."

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SIGNATURES

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

Date: November 13, 2001

ON SEMICONDUCTOR CORPORATION
(Registrant)

By: /s/DARIO SACOMANI

Dario Sacomani
Senior Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal
Financial Officer of the Registrant)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
99.1	Risk Factors

EXHIBIT 99.1

RISK FACTORS

You should carefully consider the risks described below and other information in the Form 10-Q to which this document is an exhibit and subsequent reports filed with the Securities and Exchange Commission before making any decision to invest in our securities. If any of the following risks actually occurs, our business, financial condition or operating results could be materially adversely affected, the trading prices of our securities could decline, and you could lose all or part of your investment.

Effective January 1, 2001, we changed our accounting method for recognizing revenue on sales to distributors. Recognition of revenue and related gross profit on sales to distributors is now deferred until the distributor resells the product. In the risk factors set forth below, we have generally restated financial information on a pro forma basis for periods prior to 2001 to reflect the change in revenue recognition on sales to distributors.

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RISKS RELATED TO OUR BUSINESS

WE HAVE RECENTLY EXPERIENCED SUBSTANTIAL DECLINES IN REVENUES AND OPERATING LOSSES, AND WE MAY EXPERIENCE ADDITIONAL DECLINES IN REVENUES AND OPERATING LOSSES IN THE FUTURE.

Our total revenues for the first nine months of 2001 were $947.7 million compared to $1,488.1 million in the corresponding period in 2000. This decline was due primarily to reduced demand for our products resulting from the recent economic slowdown and actions taken by our customers to manage their inventories in line with incoming business. We incurred a net loss of $380.5 million for the nine months of 2001 compared to net income of $22.1 million in the same period in 2000. The recent downturn in our business has been most pronounced in our broadband product family. Net revenues from broadband products, which accounted for approximately 10.9% of net product revenues in the nine months ended September 28, 2001, decreased 54.4% from $225.5 million in the first nine months of 2000 to $102.8 million for the comparable period in 2001.

During 2000 and the first nine months of 2001, we implemented a number of cost reduction initiatives. These initiatives have included accelerating our manufacturing moves into lower cost regions, transitioning higher-cost external supply to internal manufacturing, working with our material suppliers to further lower costs, work force reductions, salary reductions, temporary shutdowns of facilities with mandatory vacation, and aggressively streamlining our overhead. However, we cannot assure you that actual results of these cost reduction initiatives will, in and of themselves, return us to profitability.

We expect that reduced end-user demand, underutilization of our manufacturing capacity and other factors will continue to adversely affect our business in the near term and we may experience additional declines in revenue and operating losses in the future. In order to return to profitability, we must successfully implement our business plan, including our cost reduction initiatives. We also currently face an environment of uncertain demand in the markets our products address. We cannot assure you that we will be able to return to profitability or that we will be able to sustain our profitability, if achieved.

WE OPERATE IN THE HIGHLY CYCLICAL SEMICONDUCTOR INDUSTRY, WHICH IS SUBJECT TO SIGNIFICANT DOWNTURNS.

The semiconductor industry is highly cyclical. The industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles (for semiconductors and for the end-user products in which they are used) and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. We have experienced these conditions in our business in the past, are currently experiencing a significant downturn and may experience such downturns in the future. The current downturn and future downturns in the semiconductor industry may be severe and prolonged. Future downturns in the semiconductor industry, or any failure of the industry to fully recover from its recent downturn, could seriously impact our revenues and harm our business, financial condition and results of operations.

During the 1990s and continuing into 2000, the semiconductor industry enjoyed unprecedented growth, benefiting from the rapid expansion of the Internet and other computing and communications technologies. During the first nine months of 2001, we - like many of our customers and competitors - were adversely affected by a general economic slowdown and an abrupt decline in demand for many of the end-user products that incorporate our integrated circuits and standard semiconductors. The terrorist attacks of September 11, 2001 may further depress economic activity and demand for end-user products. The impact of slowing end-customer demand has been compounded by higher than normal levels of equipment and component inventories among our original equipment manufacturer, subcontractor and distributor customers. We expect that reduced demand for end-user products, underutilization of our manufacturing capacity, changes in our revenue mix and other factors could adversely impact our operating results in the near term.

OUR GROSS MARGIN IS DEPENDENT ON A NUMBER OF FACTORS, INCLUDING OUR LEVEL OF CAPACITY UTILIZATION.

Semiconductor manufacturing requires significant capital investment, leading to high fixed costs, including depreciation costs. If we are unable to utilize our manufacturing and testing facilities at a high level, the fixed costs associated with these facilities will not be fully absorbed, resulting in higher average unit costs and lower gross margins. The decline in product orders and shipments in the first nine months of 2001 has resulted in reduced capacity utilization of our facilities as we have attempted to match production with anticipated customer demand. Our gross margins have declined primarily as a result of this reduced utilization of our production capacity and erosion of the average selling price of our products. As a percentage of total revenues, gross margin declined to 18.8% for in the first nine months of 2001 from 34.2% for the corresponding period in 2000. We cannot guarantee that the industry downturn and increased competition in the face of weakening demand will not lead to further price erosion, lower revenues and lower margins for us in the future.

THE COMPLETION AND IMPACT OF OUR RESTRUCTURING PROGRAM AND COST REDUCTIONS COULD ADVERSELY AFFECT OUR BUSINESS.

In the nine months ended September 28, 2001, we recorded restructuring and other charges of $133.8 million to cover costs associated with our cost reduction initiatives. These costs were primarily comprised of employee separation costs and asset impairments. Our ability to complete the implementation of these cost reductions and the impact of these actions on our ability to effectively compete are subject to risks and uncertainties. Because our restructuring activities involve many aspects of our business, the cost reductions could adversely impact productivity to an extent we have not anticipated. Even if we fully execute and implement the activities and they generate the anticipated cost savings, there may be other factors that adversely impact our profitability and business.

IF WE ARE UNABLE TO IMPLEMENT OUR BUSINESS STRATEGY, OUR REVENUES AND PROFITABILITY MAY BE ADVERSELY AFFECTED.

Our future financial performance and success are largely dependent on our ability to implement successfully our business strategy. Our present business strategy includes, without limitation, plans to: (1) continue to execute on our long-range growth plan in broadband and power management solutions while appropriately managing short-term demand fluctuations, (2) spend 5% to 6% of our net product revenues on research and development in the future; (3) accelerate our manufacturing and other moves into lower cost regions, such as China and Eastern Europe; and (4) implement measures to reduce operating expenses. We will also consider selective dispositions of assets or businesses as opportunities arise. We cannot assure you that we will successfully implement the business strategy or that implementing our strategy will sustain or improve our results of operations. In particular, we cannot assure you that we will be able to build our position in markets with high growth potential, increase our sales, increase our manufacturing efficiency, optimize our manufacturing capacity, lower our production and operating expenses, or make strategic acquisitions, alliances and dispositions.

Our business strategy is based on our assumptions about the future demand for our current products and the new products and applications we are developing and on our continuing ability to produce

our products profitably. Each of these factors depends on our ability, among other things, to finance our operating and product development activities, maintain high quality and efficient manufacturing operations, relocate and close manufacturing facilities and reduce operating expenses as part of our ongoing cost restructuring with minimal disruption to our operations, access quality raw materials and contract manufacturing services in a cost-effective and timely manner, protect our intellectual property portfolio and attract and retain highly-skilled technical, managerial, marketing and finance personnel. Several of these and other factors that could affect our ability to implement our business strategy, such as risks associated with international operations, increased competition, legal developments and general economic conditions, are beyond our control. In addition, circumstances beyond our control and changes in our business or industry may require us to change our business strategy.

TERRORIST ATTACKS, SUCH AS THE ATTACKS THAT OCCURRED IN NEW YORK AND WASHINGTON D.C. ON SEPTEMBER 11, 2001, AND OTHER ACTS OF VIOLENCE OR WAR MAY AFFECT THE MARKETS IN WHICH OUR COMMON STOCK TRADES, THE MARKETS IN WHICH WE OPERATE AND OUR PROFITABILITY.

On September 11, 2001 the United States was the target of terrorist attacks of unprecedented scope. These attacks may lead to armed hostilities or further acts of terrorism and civil disturbance in the United States or elsewhere. The terrorist attacks caused instability in the global financial markets, and contributed to downward pressure on stock prices of United States publicly traded companies, such as ours. Future terrorist attacks or armed conflict could result in greater economic instability and further depress stock prices, including the price of our common stock.

The September 11 attacks disrupted the global insurance and reinsurance industries, and we may experience delays in renewing some insurance policies and may not be able to obtain insurance at historical levels on all of our facilities. Future terrorist attacks or armed hostilities could affect our domestic and international sales, disrupt our supply chain and impair our ability to produce and deliver our products. Such attacks and hostilities could directly impact our physical facilities or those of our joint ventures, suppliers or customers, both in the United States and elsewhere. Our primary facilities are located in the United States, Malaysia, the Philippines, Japan, and Slovakia. In connection with our joint ventures, we also have facilities in China and the Czech Republic. In addition, the threat of additional acts of terrorism may make transportation of our supplies and products more difficult or cost prohibitive. Any impairment of our financial performance as a result of terrorist attacks or armed conflict could increase the risk of noncompliance with the financial covenants in our principal credit agreement resulting in events of default and the possible acceleration of our indebtedness. Due to the broad and uncertain effects that the September 11 attacks have had on financial and economic markets generally, we cannot provide any reliable measure of the impact that the attacks have had on our recent financial performance or any estimate as to how these attacks might affect our future results.

THE AGREEMENTS GOVERNING OUR INDEBTEDNESS CONTAIN RESTRICTIVE COVENANTS THAT LIMIT OUR ABILITY TO FINANCE FUTURE OPERATIONS OR CAPITAL NEEDS OR ENGAGE IN OTHER BUSINESS ACTIVITIES THAT MAY BE IN OUR INTEREST.

Our principal credit facility and other debt instruments contain various provisions that limit our management's discretion in the operation of our business by restricting our ability to:

- incur additional indebtedness;

- pay dividends and make other distributions;

- prepay subordinated debt;

- make restricted payments;

- enter into sale and leaseback transactions;

- create liens;

- make capital expenditures in excess of certain limitations;

- - sell and otherwise dispose of assets; and

- - enter into transactions with affiliates.

These restrictions may adversely affect our ability to finance our future operations or capital needs or engage in other business activities that may be in our interest.

In addition, the covenants under our principal credit agreement require us to maintain specified financial ratios. As a result of our recent financial performance, at June 29, 2001 we were not in compliance with covenants under our principal credit agreement requiring the maintenance of minimum interest expense and leverage coverage ratios. We negotiated a waiver in respect of our noncompliance with these covenants, and in respect of any future noncompliance with these covenants through December 31, 2002. In connection with the waiver, we amended our principal credit agreement. Under these amendments, minimum interest expense coverage ratio and leverage ratio requirements for periods between January 31, 2003 through December 31, 2005 were reduced, maximum capital expenditure limits were reduced and covenants requiring the maintenance of a minimum cash and cash equivalent balance until certain financial ratios are achieved and minimum EBITDA levels through December 31, 2002 were added. Our ability to maintain the minimum EBITDA levels and minimum cash and cash equivalent balance under our amended credit facility may be affected by events beyond our control.

If we are unable to comply with any of the provisions of our debt instruments, we will be in default, which could cause cross-defaults under other loans or agreements. A default, if not waived by our lenders, could result in the acceleration of our outstanding indebtedness and cause our debt to become immediately due and payable. If we were required to obtain waivers of defaults, we may incur significant fees and transaction costs. If waivers of defaults are not obtained and acceleration occurs, we would not be able to repay our debt and it is unlikely that we would be able to borrow sufficient additional funds to refinance the debt.

OUR SUBSTANTIAL LEVERAGE COULD ADVERSELY AFFECT OUR ABILITY TO OPERATE OUR BUSINESS.

We are highly leveraged and have significant debt service obligations. As of September 28, 2001, we had total long-term indebtedness of approximately $1,394.9 million (including current maturities, but excluding unused commitments) and interest expense of approximately $93.4 million for the nine months ended September 28, 2001. We may incur additional debt in the future. Our substantial indebtedness could have important consequences to you, including the risks that:

- - we will be required to use a substantial portion of our cash flow from operations to meet our debt service requirements, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, product development efforts and strategic acquisitions;

- - our interest expense could increase if interest rates in general increase because a substantial portion of our debt will bear interest rates based on market rates;

- - our level of indebtedness will increase our vulnerability to general economic downturns and adverse industry conditions;

- - our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and the semiconductor industry;

- - our debt covenants may restrict us from raising additional financing on satisfactory terms; and

- - our substantial leverage could place us at a competitive disadvantage compared to our competitors who have less debt.

As a condition to the recent modifications to the covenants under our principal credit agreement, we agreed to specified increases in the interest rates on our outstanding borrowings and the imposition of supplemental interest charges. As a result, our interest rate expense on an annual basis is expected to increase by approximately $36.1 million.

WE MAY REQUIRE ADDITIONAL CAPITAL IN THE FUTURE, AND ADDITIONAL FUNDS MAY NOT BE AVAILABLE ON TERMS ACCEPTABLE TO US.

We believe that our existing cash and cash equivalents, together with the cash that we expect to generate from our operations, will be sufficient to meet our planned capital needs. However, it is possible that we may need to raise additional capital to fund our future activities or to consummate acquisitions of other businesses, products or technologies. We may be able to raise these funds by selling securities to the public or selected investors, or by borrowing money. We may not be able to obtain additional funds on favorable terms, or at all. If adequate funds are not available, we may be required to curtail our operations significantly, make selective dispositions of our assets or obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain technologies or potential markets. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentage of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, privileges or preferences senior to those of our common stock.

WE MAY BE UNABLE TO MAKE THE SUBSTANTIAL RESEARCH AND DEVELOPMENT INVESTMENTS REQUIRED TO REMAIN COMPETITIVE IN OUR BUSINESS.

The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. We cannot assure you that we will have sufficient resources to maintain the level of investment in research and development required to remain competitive in our business.

UNCERTAINTIES INVOLVING THE ORDERING AND SHIPMENT OF, AND PAYMENT FOR, OUR PRODUCTS COULD ADVERSELY AFFECT OUR BUSINESS.

Our sales are typically made pursuant to individual purchase orders and we generally do not have long term supply arrangements with our customers. Generally, our customers may cancel orders 30 days prior to shipment without incurring a significant penalty. In addition, we sell a portion of our products through distributors, some of whom have rights to return a portion of unsold products to us. Sales to distributors accounted for approximately 42% of net product revenues in 2000 and 43% of net product revenues in the first nine months of 2001. We routinely purchase inventory based on customers' estimates of demand for their products, which is difficult to predict. This difficulty may be compounded when we sell to original equipment manufacturers indirectly through distributors or contract manufacturers, or both, as our forecasts for demand are then based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to failure of anticipated orders to materialize could result in excess obsolete inventory, which could result in write-downs of inventory or the incurrence of significant cancellation penalties under our arrangements with our raw materials and equipment suppliers.

During the first nine months of 2001, the markets in which our customers operate have been characterized by a dramatic decline in end-user demand and continued high levels of channel inventories, which have reduced visibility of future demand for our products and may, in some cases, lead to delays or defaults in payments for our products. We expect these and other factors to continue to affect our revenues in the near term.

FLUCTUATIONS IN OUR QUARTERLY OPERATING RESULTS MAY CAUSE OUR STOCK PRICE TO DECLINE.

Given the nature of the markets in which we participate, we cannot reliably predict future revenues and profitability, and unexpected changes may cause us to adjust our operations. A portion of our costs are fixed, due in part to our significant sales, research and development and manufacturing costs. Thus, small declines in revenues could negatively affect our operating results in any given quarter. Factors that could affect our quarterly operating results include:

- the timing and size of orders from our customers, including cancellations and reschedulings;

- the timing of introduction of new products;

- the gain or loss of significant customers, including as a result of industry consolidation;

- seasonality in some of our target markets;

- changes in the mix of products we sell;

- changes in demand by the end-users of our customers' products;

- market acceptance of our current and future products;

- variability of our customers' product life cycles;

- changes in manufacturing yields or other factors affecting the cost of goods sold, such as the cost and availability of raw materials and the extent of utilization of manufacturing capacity;

- changes in the prices of our products, which can be affected by the level of our customers' and end-users' demand, technological change, product obsolescence or other factors; and

- cancellations, changes or delays of deliveries to us by our third-party manufacturers, including as a result of the availability of manufacturing capacity and the proposed terms of manufacturing arrangements.

AN INABILITY TO INTRODUCE NEW PRODUCTS COULD ADVERSELY AFFECT US, AND CHANGING TECHNOLOGIES OR CONSUMPTION PATTERNS COULD REDUCE THE DEMAND FOR OUR PRODUCTS.

Rapidly changing technologies and industry standards, along with frequent new product introductions, characterize the industries that are currently the primary end-users of semiconductors. As these industries evolve and introduce new products, our success will depend on our ability to predict and adapt to these changes in a timely and cost-effective manner by designing, developing, manufacturing, marketing and providing customer support for our own new products and technologies.

We cannot assure you that we will be able to identify changes in the product markets and requirements of our customers and end-users and adapt to such changes in a timely and cost-effective manner. Nor can we assure you that products or technologies that may be developed in the future by our competitors and others will not render our products or technologies obsolete or noncompetitive. A fundamental shift in technologies or consumption patterns in our existing product markets or the product markets of our customers or end-users could have a material adverse effect on our business or prospects.

COMPETITION IN OUR INDUSTRY COULD PREVENT US FROM MAINTAINING OUR LEVEL OF REVENUES AND FROM RAISING PRICES TO REFLECT INCREASES IN COSTS.

The semiconductor industry, particularly the market for semiconductor components, is highly competitive. As a result of the recent economic downturn, competition in the markets in which we operate has intensified as manufacturers of semiconductor components have offered reduced prices in order to

combat production overcapacity and high inventory levels. Although only a few companies compete with us in all of our product lines, we face significant competition within each of our product lines from major international semiconductor companies as well as smaller companies focused on specific market niches. In addition, companies not currently in direct competition with us may introduce competing products in the future. The semiconductor components industry has also been undergoing significant restructuring and consolidations that could adversely affect our competitiveness.

Many of our competitors may have certain advantages over us, including:

- substantially greater financial and other resources with which to withstand adverse economic or market conditions and pursue development, engineering, manufacturing, marketing and distribution of their products;

- longer independent operating histories and presence in key markets; and

- greater name recognition.

Because our components are often building block semiconductors that in some cases can be integrated into more complex integrated circuits, we also face competition from manufacturers of integrated circuits, application-specific integrated circuits and fully customized integrated circuits, as well as customers who develop their own integrated circuit products.

We compete in different product lines to various degrees on the basis of price, quality, technical performance, product features, product system compatibility, customized design, strategic relationships with customers, new product innovation, availability, delivery timing and reliability and customer sales and technical support. Gross margins in the industry vary by geographic region depending on local demand for the products in which semiconductors are used, such as personal computers, industrial and telecommunications equipment, consumer electronics and automotive goods. Our ability to compete successfully depends on elements both within and outside of our control, including industry and general economic trends.

UNLESS WE MAINTAIN MANUFACTURING EFFICIENCY AND AVOID MANUFACTURING DIFFICULTIES, OUR FUTURE PROFITABILITY COULD BE ADVERSELY AFFECTED.

Manufacturing semiconductor components involves highly complex processes that require advanced equipment. We and our competitors continuously modify these processes in an effort to improve yields and product performance. Impurities or other difficulties in the manufacturing process can lower yields. Our manufacturing efficiency will be an important factor in our future profitability, and we cannot assure you that we will be able to maintain our manufacturing efficiency or increase manufacturing efficiency to the same extent as our competitors.

From time to time we have experienced difficulty in beginning production at new facilities, transferring production to other facilities or in effecting transitions to new manufacturing processes that have caused us to suffer delays in product deliveries or reduced yields. We cannot assure you that we will not experience manufacturing problems in achieving acceptable yields or experience product delivery delays in the future as a result of, among other things, capacity constraints, construction delays, transferring production to other facilities, upgrading or expanding existing facilities or changing our process technologies, any of which could result in a loss of future revenues. Our results of operations could also be adversely affected by the increase in fixed costs and operating expenses related to increases in production capacity if revenues do not increase proportionately.

WE MUST INCUR SIGNIFICANT CAPITAL EXPENDITURES FOR MANUFACTURING TECHNOLOGY AND EQUIPMENT TO REMAIN COMPETITIVE.

Semiconductor manufacturing requires a constant upgrading of process technology to remain competitive, as new and enhanced semiconductor processes are developed which permit smaller, more efficient and more powerful semiconductor devices. We maintain certain of our own manufacturing, assembly and test facilities, which have required and will continue to require significant investments in manufacturing technology and equipment. We have made substantial capital expenditures and installed significant production capacity to support new technologies and increased production volume.

We cannot assure you that we will have sufficient capital resources to make necessary investments in manufacturing technology and equipment. In addition, our principal credit agreement limits the amount of our capital expenditures. Although recent amendments to the credit agreement relax these restrictions, they still may prevent us from making capital expenditures in an amount our management believes to be necessary to maintain or enhance our competitive position.

IF WE WERE TO LOSE ONE OF OUR LARGE CUSTOMERS, OUR REVENUES AND PROFITABILITY COULD BE ADVERSELY AFFECTED.

Product sales to our ten largest customers accounted in the aggregate for approximately 52% and 51% of our net product revenues in 2000 and the nine months ended September 28, 2001, respectively. Many of our customers operate in cyclical industries, and in the past we have experienced significant fluctuations from period to period in the volume of our products ordered. Generally, our agreements with our customers impose no minimum or continuing obligations to purchase our products. We cannot assure that any of our customers will not significantly reduce orders or seek price reductions in the future or that the loss of one or more of our customers would not have a material adverse effect on our business or prospects.

THE LOSS OF OUR SOURCES OF RAW MATERIALS OR MANUFACTURING SERVICES, OR INCREASES IN THE PRICES OF SUCH GOODS OR SERVICES, COULD ADVERSELY AFFECT OUR OPERATIONS AND PRODUCTIVITY.

Our results of operations could be adversely affected if we are unable to obtain adequate supplies of raw materials in a timely manner or if the costs of our raw materials increase significantly or their quality deteriorates. Our manufacturing processes rely on many raw materials, including silicon wafers, copper lead frames, mold compound, ceramic packages and various chemicals and gases. Generally, our agreements with suppliers impose no minimum or continuing supply obligations, and we obtain our raw materials and supplies from a large number of sources on a just-in-time basis. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Although we believe that our current supplies of raw materials are adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry.

In addition, for some of our products, such as our new Silicon Germanium (SiGe) technology, we are dependent upon a limited number of highly specialized suppliers for required components and materials. The number of qualified alternative suppliers for these kinds of technologies is extremely limited. We cannot assure you that we will not lose our suppliers for these key technologies or that our suppliers will be able to meet performance and quality specifications or delivery schedules. Disruption or termination of our limited supply sources for these components and materials could delay our shipments of products utilizing these technologies and damage relationships with current and prospective customers.

We also use third-party contractors for manufacturing activities, primarily for wafer fabrication and the assembly and testing of final goods. In 2000, these contract manufacturers, including Motorola, AIT, ASE and Phenitec, accounted for approximately 45% of our cost of sales. Our agreements with these manufacturers typically require us to forecast product needs and commit to purchase services consistent with these forecasts, and in some cases require longer-term commitments in the early stages of the relationship. Our operations could be adversely affected if these contractual relationships were disrupted or terminated, the cost of such services increased significantly, the quality of the services provided deteriorated or our forecasts proved to be materially incorrect.

In the case of Motorola, we agreed to continue providing manufacturing services to each other (including Motorola's manufacturing of our emitter-coupled logic products) for limited periods of time following our recapitalization. Under our agreements with Motorola, the price of these services are fixed at levels that are intended to approximate each party's cost of providing the services. Subject to our right to cancel upon six months' written notice, we have minimum commitments to purchase manufacturing services from Motorola, as of November 1, 2001, of approximately $56 million, $26 million and $25 million in fiscal years 2001, 2002 and 2003, respectively, and have no purchase obligations thereafter. We could be adversely affected if we are unable to relocate these manufacturing operations to our own facilities or to other third-party manufacturers on cost-effective terms or make other satisfactory arrangements prior to the time when these agreements expire.

ACQUISITIONS AND STRATEGIC ALLIANCES MAY HARM OUR OPERATING RESULTS, CAUSE US TO INCUR DEBT OR ASSUME CONTINGENT LIABILITIES OR DILUTE OUR STOCKHOLDERS.

We may in the future acquire and form strategic alliances relating to other businesses, products and technologies. Successful acquisitions and alliances in the semiconductor industry are difficult to accomplish because they require, among other things, efficient integration and aligning of product offerings and manufacturing operations and coordination of sales and marketing and research and development efforts. The difficulties of integration and alignment may be increased by the necessity of coordinating geographically separated organizations, the complexity of the technologies being integrated and aligned and the necessity of integrating personnel with disparate business backgrounds and combining different corporate cultures. The integration and alignment of operations following an acquisition or alliance requires the dedication of management resources that may distract attention from the day-to-day business, and may disrupt key research and development, marketing or sales efforts. In addition, we may issue equity securities to pay for any future acquisitions or alliances, which could be dilutive to our existing stockholders. We may also incur debt or assume contingent liabilities in connection with acquisitions and alliances, which could harm our operating results. Without strategic acquisitions and alliances we may have difficulty meeting future customer product and service requirements.

OUR INTERNATIONAL OPERATIONS SUBJECT US TO RISKS INHERENT IN DOING BUSINESS ON AN INTERNATIONAL LEVEL THAT COULD ADVERSELY IMPACT OUR RESULTS OF OPERATIONS.

Approximately 41%, 37% and 22% of our net product revenues in the nine months ended September 28, 2001 were derived from sales, directly or through distributors or electronic manufacturing service providers, to end-users in the Americas, the Asia/Pacific region and Europe (including the Middle East), respectively. We maintain significant operations in Seremban, Malaysia; Carmona, the Philippines; Aizu, Japan; Leshan, China; Roznov, the Czech Republic; and Piestany, the Slovak Republic. In addition, we rely on a number of contract manufacturers (primarily for assembly and testing) whose operations are primarily located in the Asia/Pacific region.

We cannot assure you that we will be successful in overcoming the risks that relate to or arise from operating in international markets. Risks inherent in doing business on an international level include, among others, the following:

- economic and political instability;

- changes in regulatory requirements, tariffs, customs, duties and other trade barriers;

- transportation delays;

- power supply shortages and shutdowns;

- difficulties in staffing and managing foreign operations and other labor problems;

- currency convertibility and repatriation;

- taxation of our earnings and the earnings of our personnel; and

- other risks relating to the administration of or changes in, or new interpretations of, the laws, regulations and policies of the jurisdictions in which we conduct our business.

Our activities outside the United States are subject to additional risks associated with fluctuating currency values and exchange rates, hard currency shortages and controls on currency exchange. While our sales are primarily denominated in U.S. dollars, worldwide semiconductor pricing is influenced by currency rate fluctuations.

IF WE FAIL TO ATTRACT AND RETAIN HIGHLY-SKILLED PERSONNEL, OUR RESULTS OF OPERATIONS AND COMPETITIVE POSITION COULD DETERIORATE.

Our success depends upon our ability to attract and retain highly-skilled technical, managerial, marketing and finance personnel. The market for personnel with such qualifications is highly competitive. For example, analog component designers are difficult to attract and retain, and the failure to attract and retain analog component designers could compromise our ability to keep pace with our competitors in the market for analog components. We have not entered into employment agreements with all of our key personnel. As employee incentives, we issue common stock options that generally have exercise prices at the market value at time of the grant and that are subject to vesting. Recently, our stock price has declined substantially, reducing the effectiveness of these incentives. Loss of the services of, or failure to effectively recruit, qualified personnel, including senior managers and design engineers, could have a material adverse effect on our business.

WE USE A SIGNIFICANT AMOUNT OF INTELLECTUAL PROPERTY IN OUR BUSINESS. SOME OF THAT INTELLECTUAL PROPERTY IS CURRENTLY SUBJECT TO DISPUTES WITH THIRD PARTIES, AND LITIGATION COULD ARISE IN THE FUTURE. IF WE ARE UNABLE TO PROTECT THE INTELLECTUAL PROPERTY WE USE, OUR BUSINESS COULD BE ADVERSELY AFFECTED.

We rely on patents, trade secrets, trademarks, mask works and copyrights to protect our products and technologies. Some of our products and technologies are not covered by any patents or pending patent applications, and we cannot assure you that:

- any of the substantial number of U.S. and foreign patents and pending patent applications that we employ in our business, including those that Motorola assigned, licensed or sublicensed to us in connection with our recapitalization, will not lapse or be invalidated, circumvented, challenged, abandoned or licensed to others;

- the license rights granted by Motorola in connection with our recapitalization will provide competitive advantages to us;

- any of our pending or future patent applications will be issued or have the coverage originally sought;

- any of the trademarks, copyrights, trade secrets, know-how or mask works that Motorola has assigned, licensed or sublicensed to us in connection with our recapitalization will not lapse or be invalidated, circumvented, challenged, abandoned or licensed to others; or

- any of our pending or future trademark, copyright, or mask work applications will be issued or have the coverage originally sought.

In addition, our competitors or others may develop products or technologies that are similar or superior to our products or technologies, duplicate our products or technologies or design around our protected technologies. Effective patent, trademark, copyright and trade secret protection may be unavailable, limited or not applied for in the United States and in foreign countries.

Also, we may from time to time in the future be notified of claims that we may be infringing third-party patents or other intellectual property rights. Motorola has agreed to indemnify us for a limited period of time with respect to some claims that our activities infringe on the intellectual property rights of others. If necessary or desirable, we may seek licenses under such patents or intellectual property rights. However, we cannot assure you that we will obtain such licenses or that the terms of any offered licenses will be acceptable to us. The failure to obtain a license from a third party for technologies we use could cause us to incur substantial liabilities or to suspend the manufacture or shipment of products or our use of processes requiring the technologies. Litigation could cause us to incur significant expense, by adversely affecting sales of the challenged product or technologies and diverting the efforts of our technical and management personnel, whether or not such litigation is resolved in our favor. In the event of an adverse outcome in any such litigation, we may be required to:

- pay substantial damages;
- cease the manufacture, use, sale or importation of infringing products;
- expend significant resources to develop or acquire non-infringing technologies;
- discontinue the use of processes; or
- obtain licenses to the infringing technologies.

We cannot assure you that we would be successful in any such development or acquisition or that any such licenses would be available to us on reasonable terms. Any such development, acquisition or license could require the expenditure of substantial time and other resources.

We will also seek to protect our proprietary technologies, including technologies that may not be patented or patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with our collaborators, advisors, employees and consultants. We cannot assure you that these agreements will not be breached, that we will have adequate remedies for any breach or that persons or institutions will not assert rights to intellectual property arising out of our research.

ENVIRONMENTAL AND OTHER REGULATORY MATTERS COULD ADVERSELY AFFECT OUR ABILITY TO CONDUCT OUR BUSINESS AND COULD REQUIRE EXPENDITURES THAT COULD HAVE A MATERIAL ADVERSE AFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Our manufacturing operations are subject to various environmental laws and regulations relating to the management, disposal and remediation of hazardous substances and the emission and discharge of pollutants into the air and water. Our operations are also subject to laws and regulations relating to workplace safety and worker health which, among other things, regulate employee exposure to hazardous substances. Motorola has agreed to indemnify us for environmental and health and safety liabilities related to the conduct or operations of our business or Motorola's ownership, occupancy or use of real property occurring prior to the closing of our recapitalization transaction. We also have purchased environmental insurance. However, we cannot assure you that such indemnification arrangements and insurance policy will cover all material environmental costs relating to pre-closing matters and subsequent matters, respectively. In addition, the nature of our operations exposes us to the continuing risk of environmental and health and safety liabilities related to events or activities occurring after our recapitalization.

We believe that the future cost of compliance with existing environmental and health and safety laws and regulations, and any liability for currently known environmental conditions, will not have a material adverse effect on our business or prospects. However, we cannot predict:

- changes in environmental or health and safety laws or regulations;

- the manner in which environmental or health and safety laws or regulations will be enforced, administered or interpreted; or

- the cost of compliance with future environmental or health and safety laws or regulations or the costs associated with any future environmental claims, including the cost of clean-up of currently unknown environmental conditions.

WE ARE PARTY TO SECURITIES CLASS ACTION LITIGATION WHICH MAY BE COSTLY TO DEFEND AND THE OUTCOME OF WHICH IS UNCERTAIN.

In July 2001, three stockholder class action lawsuits were filed in the United States District Court for the Southern District of New York against us, certain of our officers and directors and various investment banking firms who acted as underwriters in connection with our initial public offering in April 2000. The class action lawsuits generally allege that our offering documents failed to disclose (i) certain underwriting fees and commissions and (ii) underwriter tie-ins and other arrangements with certain customers that impacted the price of our common stock in the aftermarket. The plaintiffs are seeking monetary damages and other appropriate relief.

We can provide no assurance as to the outcome of this securities litigation. Any conclusion of this litigation in a manner adverse to us could have a material adverse effect on our business, financial condition and results of operations. In addition, the cost to us of defending the litigation, even if resolved in our favor, could be substantial. Such litigation could also substantially divert the attention of our management and our resources in general. Uncertainties resulting from the initiation and continuation of this litigation could harm our ability to compete in the marketplace. Because the price of our common stock has been, and may continue to be, volatile, we can provide no assurance that additional securities litigation will not be filed against us in the future.

RISKS RELATED TO OUR COMMON STOCK

IF OUR SHARES ARE DELISTED, YOU MIGHT NOT BE ABLE TO SELL YOUR INVESTMENT IN OUR COMPANY.

Our common stock is listed on the Nasdaq National Market System. To continue to be listed on that market, however, we must continue to satisfy, with certain exceptions, specified maintenance criteria, including:

- required levels of total assets, net tangible assets, stockholders' equity or revenues,

- a minimum market value of our public float, and

- a minimum bid price per share.

While Nasdaq recently announced a temporary suspension, until January 2, 2002, of the minimum bid price and public float requirements for continued listing, our failure to meet these maintenance criteria in the future may result in the delisting of our common stock from the Nasdaq National Market System. If we are delisted from the Nasdaq National Market, we may continue to be listed on the Nasdaq SmallCap Market if we are able to satisfy its continued listing criteria. In the event that we cannot satisfy the listing criteria of the Nasdaq SmallCap Market, trading, if any, in our common stock would be conducted in the over-the-counter market in the so-called "pink sheets" or the OTC Bulletin Board. Consequently, selling our common stock would be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and security analysts' coverage of us may be reduced. These factors could result in lower prices and larger spreads in the bid and ask prices for shares of our common stock. A delisting from Nasdaq also may have a material adverse effect on our ability to raise capital through the issuance of additional equity.

In the event our common stock is delisted from Nasdaq, we would become subject to certain securities law restrictions requiring broker/dealers who recommend low-priced securities to persons (with certain exceptions) to satisfy special sales practice requirements, including making an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction. These "penny stock" regulations also require additional disclosure in connection with any trades involving low-priced stocks (subject to certain exceptions), including the delivery, prior to any transaction, of a disclosure schedule explaining the market for such stocks and the associated risks. These requirements could severely limit the market liquidity of our common stock and your ability to sell the common stock in the secondary market.

HOLDERS OF OUR COMMON STOCK MAY EXPERIENCE DILUTION AND THE PRICE OF OUR COMMON STOCK MAY DECLINE AS A RESULT OF THE ISSUANCE OF SERIES A PREFERRED STOCK.

In September 2001, we sold 10,000 shares of our Series A preferred stock to TPG ON Holdings LLC, an affiliate of the Texas Pacific Group. Each share of Series A preferred stock is convertible at the option of the holder into approximately 3,546 shares of our common stock, subject to customary anti-dilution adjustments. Under the anti-dilution provisions, the conversion price is subject to downward adjustment in the event we issue common stock, or derivative securities entitling the holder to subscribe for or acquire common stock, at a price below the then-current conversion price or market price. Holders of Series A preferred stock are entitled to cumulative dividends, payable quarterly in cash, at a rate of 8% 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 our common stock then issuable upon conversion of the Series A preferred stock), subject to applicable restriction imposed by our principal credit facility. In the event dividends are not paid, the dividends will accumulate on a compounded basis and the number of shares of common stock into which the Series A preferred stock is convertible will increase proportionately.

There is a possibility that the Series A preferred stock will be converted at a price per share that is less than the then current market price of our common stock. If this were to occur, it may cause substantial dilution to our existing common stockholders. Additionally, we are required to register the shares of common stock issuable upon conversion of the Series A preferred stock under the Securities Act for public resale. Therefore, in the event that the Series A preferred stock is converted, a substantial number of shares of our common stock may be sold into the market, which could decrease the trading price of our common stock and encourage short sales by the selling shareholder or others. Short sales could place further downward pressure on the price of our common stock.

OUR STOCK PRICE MAY BE VOLATILE, WHICH COULD RESULT IN SUBSTANTIAL LOSSES FOR INVESTORS IN OUR SECURITIES.

The stock markets in general, and the markets for high technology stocks in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

The market price of the common stock may also fluctuate significantly in response to the following factors, some of which are beyond our control:

- variations in our quarterly operating results;

- changes in securities analysts' estimates of our financial performance;

- changes in market valuations of similar companies;

- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures, capital commitments, new products or product enhancements;

- loss of a major customer or failure to complete significant transactions; and

- additions or departures of key personnel.

As of November 5, 2001, the trading price of our common stock since our initial public offering has ranged from a high of $27.75 on May 1, 2000 to a low of $1.12 on October 5, 2001.

OUR STOCK PRICE COULD BE AFFECTED BECAUSE A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK WILL BE AVAILABLE FOR SALE IN THE FUTURE.

Sales in the public market of a substantial number of shares of common stock, including shares of common stock issued upon conversion of the Series A preferred stock, could depress the market price of the common stock and could impair our ability to raise capital through the sale of additional equity securities. A substantial number of shares of our common stock will be available for future sale.

ONE OF OUR PRINCIPAL STOCKHOLDERS CONTROLS OUR COMPANY, WHICH WILL LIMIT THE ABILITY OF OUR OTHER STOCKHOLDERS TO INFLUENCE THE OUTCOME OF DIRECTOR ELECTIONS AND OTHER MATTERS SUBMITTED FOR A VOTE OF THE STOCKHOLDERS.

Affiliates of Texas Pacific Group own 124,999,433 shares of our common stock and all of the outstanding shares of Series A preferred stock. These shares represent approximately 76% of the total voting power of our capital stock. As a result, Texas Pacific Group, through its affiliates, will be able to:

- elect all of our directors and, as a result, control matters requiring board approval;

- control matters submitted to a stockholder vote, including mergers and consolidations with third parties and the sale of all or substantially all of our assets; and

- otherwise control or influence our business direction and policies.

In addition, our certificate of incorporation provides that the provisions of Section 203 of the Delaware General Corporation Law, which relate to business combinations with interested stockholders, do not apply to us.

PROVISIONS IN OUR CHARTER DOCUMENTS MAY DELAY OR PREVENT THE ACQUISITION OF OUR COMPANY, WHICH COULD DECREASE THE VALUE OF OUR STOCK.

Our certificate of incorporation and bylaws contain provisions that could make it harder for a third party to acquire us without the consent of our board of directors. These provisions:

- create a board of directors with staggered terms;

- permit only our board of directors or the chairman on our board of directors to call special meetings of stockholders;

- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting;

- prohibit stockholder action by written consent;

- authorize the issuance of "blank check" preferred stock, which is preferred stock with voting or other rights or preferences that could impede a takeover attempt and that our board of directors can create and issue without prior stockholder approval; and

- require the approval by holders of at least 66 2/3% of our outstanding common stock to amend any of these provisions in our certificate of incorporation or bylaws.

Although we believe these provisions make a higher third-party bid more likely by requiring potential acquirors to negotiate with our board of directors, these provisions apply even if an initial offer may be considered beneficial by some stockholders.