
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 30, 2000

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

For the transition period from _____ to _____.

000-30419

Commission File Number

ON SEMICONDUCTOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-3840979

(I.R.S. Employer Identification No.)

5005 E. McDowell Road

Phoenix, AZ 85008
(602) 244-6600

(Address and telephone number of principal executive offices)

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

Yes No

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on October 27, 2000:

Class	Number of Shares
Common Stock; \$.01 par value	172,258,271

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Exhibit 3.1	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation (as of August 9, 2000)
Exhibit 10.1	Amendment No. 1 to Employment Agreement for James Thorburn, dated as of July 20, 2000
Exhibit 10.2	Promissory Note, dated July 21, 2000, from James Thorburn to Semiconductor Components Industries, LLC
Exhibit 10.3	Deed of Trust, dated as of July 20, 2000, with James Thorburn as Trustee and Semiconductor Components Industries, LLC as Beneficiary
Exhibit 27	Financial Data Schedule

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data)

	September 30, 2000	December 31, 1999
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 159.3	\$ 126.8
Receivables, net (including \$18.8 and \$24.7 due from Motorola)	297.8	249.7
Inventories	235.8	206.2
Other current assets (including \$7.7 in 2000 due from Motorola)	37.7	26.0
Deferred income taxes	43.8	28.4
	<hr/>	<hr/>
Total current assets	774.4	637.1
Property, plant and equipment, net	622.1	569.7
Deferred income taxes	280.3	289.0
Investments in joint ventures	45.3	40.4
Goodwill and other intangibles, net	139.0	—
Other assets	94.1	80.6
	<hr/>	<hr/>
Total assets	\$1,955.2	\$1,616.8
LIABILITIES, MINORITY INTERESTS, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Accounts payable (including \$8.9 and \$13.8 payable to Motorola)	\$ 168.4	\$ 122.5
Accrued expenses (including \$5.5 and \$8.2 payable to Motorola)	188.5	142.8
Income taxes payable	14.2	31.9
Accrued interest	10.2	30.1
	<hr/>	<hr/>
Total current liabilities	381.3	327.3
Long-term debt (including \$102.0 and \$94.8 payable to Motorola)	1,231.3	1,295.3
Other long-term liabilities	15.8	12.2
	<hr/>	<hr/>
Total liabilities	1,628.4	1,634.8
Commitments and contingencies	—	—
	<hr/>	<hr/>
Minority interests in consolidated subsidiaries	11.9	10.1
	<hr/>	<hr/>

Redeemable preferred stock (\$0.01 par value, 100,000 shares authorized, 0 and 2,090 shares issued and outstanding; 12% annual dividend rate; liquidation value — \$209.0 plus \$10.6 in accrued dividends in 1999)	—	219.6
Common stock (\$0.01 par value, 300,000,000 shares authorized, 171,715,449 and 136,666,666 shares issued and outstanding)	1.7	1.4
Additional paid-in capital	723.1	204.2
Accumulated other comprehensive income	1.5	2.7
Accumulated deficit	(411.4)	(456.0)
Total stockholders' equity (deficit)	314.9	(247.7)
Total liabilities, minority interests, redeemable preferred stock and stockholders' equity (deficit)	\$1,955.2	\$1,616.8

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (in millions, except per share data)

	Quarter Ended September 30, 2000	Nine Months Ended September 30, 2000	Period from August 4 through October 2, 1999
	(unaudited)	(unaudited)	(unaudited)
Revenues:			
Net product revenues (including \$37.3, \$109.1 and \$24.4 from Motorola)	\$539.0	\$1,521.5	\$301.0
Foundry revenues from Motorola	4.2	59.0	28.0
Total revenues	543.2	1,580.5	329.0
Cost of sales	349.2	1,030.3	241.6
Gross profit	194.0	550.2	87.4
Operating expenses:			
Research and development	20.3	48.6	6.9
Selling and marketing	27.5	73.3	8.8
General and administrative	64.4	175.0	32.0
Amortization of goodwill and other intangibles	5.4	10.9	—
Write-off of acquired in-process research and development	—	26.9	—
Restructuring charges	—	4.8	—
Total operating expenses	117.6	339.5	47.7
Operating income	76.4	210.7	39.7
Other income (expenses), net			
Interest expense	(31.9)	(100.4)	(22.6)
Equity in earnings of joint ventures	2.1	4.3	0.7
Other income (expenses), net	(29.8)	(96.1)	(21.9)
Income before income taxes, minority interests and extraordinary loss	46.6	114.6	17.8
Provision for income taxes	(16.0)	(41.8)	(14.9)
Minority interests	(0.7)	(1.9)	(0.4)
Net income before extraordinary loss	29.9	70.9	2.5
Extraordinary loss on debt prepayment (net of income taxes of \$11.7)	—	(17.5)	—
Net income	29.9	53.4	2.5
Less: Redeemable preferred stock dividends	—	(8.8)	(4.2)
Net income available for common stock	\$ 29.9	\$ 44.6	\$ (1.7)

Comprehensive income (loss)			
Net income	\$ 29.9	\$ 53.4	\$ 2.5
Foreign currency translation adjustments	(0.9)	(1.2)	(3.2)
Comprehensive income (loss)	\$ 29.0	\$ 52.2	\$ (0.7)
Earnings per common share:			
Basic:			
Net income before extraordinary loss	\$ 0.17	\$ 0.40	\$ (0.01)
Extraordinary loss on debt prepayment	—	(0.11)	—
Net income	\$ 0.17	\$ 0.29	\$ (0.01)
Diluted:			
Net income before extraordinary loss	\$ 0.17	\$ 0.39	\$ (0.01)
Extraordinary loss on debt prepayment	—	(0.11)	—
Net income	\$ 0.17	\$ 0.28	\$ (0.01)
Weighted average common shares outstanding:			
Basic	171.7	156.1	136.7
Diluted	177.1	161.9	136.7

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Nine Months Ended September 30, 2000	Period from August 4 through October 2, 1999
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income	\$ 53.4	\$ 2.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	117.3	23.4
Write-off of acquired in-process research and development	26.9	—
Extraordinary loss	29.2	—
Amortization of debt issuance costs	4.5	1.0
Provision for doubtful accounts	1.1	0.6
Net (gain) loss on disposals of property, plant and equipment	(1.2)	1.4
Non-cash interest on junior subordinated note payable to Motorola	7.1	1.5
Minority interests in earnings of consolidated subsidiaries	1.9	0.4
Undistributed earnings of unconsolidated joint ventures	(4.3)	(0.7)
Tax benefits of stock options exercised	3.0	—
Deferred income taxes	(6.8)	19.5
Non-cash compensation charges	0.4	—
Changes in assets and liabilities:		
Receivables	(25.7)	(192.4)
Inventories	(10.8)	9.2
Other assets	(18.4)	2.4
Accounts payable	40.5	68.0
Accrued expenses	39.3	17.4
Income taxes payable	(17.6)	11.4
Accrued interest	(19.9)	—
Other long-term liabilities	3.6	1.0
Net cash provided by (used in) operating activities	223.5	(33.4)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(126.0)	(13.4)
Investment in business, net of cash acquired	(253.2)	—
Investments in unconsolidated companies and joint ventures	(2.5)	(4.9)

Loans to unconsolidated joint venture	(23.0)	(28.3)
Proceeds from sales of property, plant and equipment	17.9	1.0
	<u> </u>	<u> </u>
Net cash used in investing activities	(386.8)	(45.6)
	<u> </u>	<u> </u>
Cash flows from financing activities:		
Proceeds from initial public offering, net of offering expenses	514.8	—
Borrowings from senior credit facilities	200.0	800.5
Payment of debt issuance costs	(3.2)	(52.6)
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 exercise of stock options	1.0	—
Proceeds from issuance of common stock to an affiliate of Texas Pacific Group	—	187.5
Proceeds from issuance of redeemable preferred stock to an affiliate of Texas Pacific Group	—	150.0
Proceeds from issuance of senior subordinated notes	—	400.0
Repayment of joint venture debt	—	(44.8)
Net cash payments to Motorola in connection with Recapitalization	—	(1,258.7)
	<u> </u>	<u> </u>
Net cash provided by financial activities	195.9	181.9
	<u> </u>	<u> </u>
Effect of exchange rate changes on cash and cash equivalents	(0.1)	—
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	32.5	102.9
Cash and cash equivalents, beginning of period	126.8	—
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 159.3	\$ 102.9
	<u> </u>	<u> </u>

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 the nine months ended September 30, 2000 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, as well as an investment in a 50%-owned joint venture, are 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.

The accompanying unaudited financial information reflects all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of December 31, 1999 and for the period from August 4, 1999 through December 31, 1999 and the combined financial statements of the Semiconductor Components Group (“SCG”) of Motorola, Inc. (“Motorola”) for the period from January 1, 1999 through August 3, 1999 included in our Form 10-K/A as filed with the Securities and Exchange Commission (“SEC”) on August 14, 2000.

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 subsidiary, Semiconductor Components Industries, LLC (“SCI LLC”), Motorola and affiliates of Texas Pacific Group. As a result of the Recapitalization, an affiliate of Texas Pacific Group owned approximately 91% and Motorola owned approximately 9% of the outstanding common stock of the Company. In addition, as part of these transactions, Texas Pacific Group 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 Texas Pacific Group 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 Texas Pacific Group’s affiliate 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. In connection with this debt prepayment, the Company incurred an extraordinary loss of \$29.2 million (\$17.5 million, or \$0.11 per share, net of income taxes) — see Note 7.

Note 2: 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.

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The Cherry acquisition was accounted for using the purchase method of accounting and, as a result, the purchase price and related costs were 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	\$ 76.4
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)	80.6
	<hr/>
	\$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 the Company expects that such products will be completed and begin 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 the Company's 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 months ended September 30, 2000 as if the Company had acquired Cherry as of January 1, 2000 (in millions, except per share data):

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 3: Inventories

Inventories consist of the following (in millions):

	September 30, 2000	December 31, 1999
Raw materials	\$ 18.1	\$ 25.6
Work in process	118.5	103.8
Finished goods	99.2	76.8
	<u>\$235.8</u>	<u>\$206.2</u>

Note 4: Restructuring Charges

In March 2000, the Company recorded a \$4.8 million charge (\$3.0 million, or \$0.02 per share, net of income taxes), 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.

In September 2000, the Company completed a detailed evaluation of the costs to be incurred to complete the March 2000 restructuring. Based on this evaluation, the Company released \$0.8 million of its remaining restructuring reserve for employee separation costs to income as a credit to restructuring charges in the consolidated statement of operations. Also in conjunction with this evaluation, the Company recorded an additional charge of \$0.8 million for asset impairments that were charged directly against the related assets.

In addition to the charge related to the March 2000 restructuring, the Company's restructuring reserves include charges from prior restructurings, which have not yet been paid. A summary of activity in the Company's restructuring reserves for the nine months ended September 30, 2000 is as follows (in millions):

Balance, December 31, 1999	\$ 9.5
Plus: March 2000 employee separation charge	3.2
Less: Payments charged against the reserve	(10.4)
Less: Reserve released to income	(0.8)
	<u>\$ 1.5</u>
Balance, September 30, 2000	

Note 5: Long-Term Debt

In connection with the Recapitalization, the Company and SCI LLC, its primary domestic operating subsidiary (collectively, the "Issuers"), issued \$400.0 million senior subordinated notes due 2009. As of September 30, 2000, \$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, Malaysia 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 an investment decision. Condensed consolidating financial information for the Issuers, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries as of and for the nine months ended September 30, 2000 are as follows (in millions):

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Receivables	\$ —	\$ 119.5	\$ 1.0	\$177.3	\$ —	\$ 297.8
Inventories	—	133.0	9.7	135.3	(42.2)	235.8
Other current assets	—	102.1	1.3	137.4	—	240.8
Total current assets	—	354.6	12.0	450.0	(42.2)	774.4
Property, plant and equipment, net	—	155.1	55.3	411.7	—	622.1
Deferred income taxes	—	274.4	13.2	(8.8)	1.5	280.3
Investments and other assets	438.5	338.6	200.6	3.4	(702.7)	278.4
Total assets	\$ 438.5	\$1,122.7	\$281.1	\$856.3	\$ (743.4)	\$1,955.2
Accounts payable	\$ —	\$ 96.4	\$ 6.4	\$ 65.6	\$ —	\$ 168.4
Accrued expenses	(3.0)	124.5	2.1	86.7	2.6	212.9
Total current liabilities	(3.0)	220.9	8.5	152.3	2.6	381.3
Long-term debt(1)	260.0	1,231.3	—	—	(260.0)	1,231.3
Other long-term liabilities	—	5.7	—	10.1	—	15.8
Intercompany(1)	(133.4)	(712.9)	165.7	465.3	215.3	—
Total liabilities	123.6	745.0	174.2	627.7	(42.1)	1,628.4
Minority interests	—	—	—	—	11.9	11.9
Stockholders equity	314.9	377.7	106.9	228.6	(713.2)	314.9
Liabilities, minority interests and stockholders equity	\$ 438.5	\$1,122.7	\$281.1	\$856.3	\$ (743.4)	\$1,955.2
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
General and administrative	—	144.1	—	30.9	—	175.0
Other operating expenses	—	100.5	50.4	13.6	—	164.5
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

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

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided by (used in) operating	\$ —	\$ 158.7	\$ 7.7	\$ 57.1	\$ —	\$ 223.5

activities						
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 (used in) 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 6: Earnings per Common Share

Basic earnings per common share before extraordinary loss is computed by dividing net income before extraordinary loss less dividends accrued on the Company's redeemable preferred stock by the weighted average number of common shares outstanding during the period. Diluted earnings per common share before extraordinary loss incorporates the incremental 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. The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per share calculations (in millions, except per share amounts):

	Income	Weighted Avg. Shares	Per Share Amount
Quarter ended September 30, 2000:			
Basic net income per share before extraordinary loss	\$29.9	171.7	\$ 0.17
Effect of dilutive securities:			
Stock options	—	5.4	—
Diluted net income per share before extraordinary loss	\$29.9	177.1	\$ 0.17
Nine months ended September 30, 2000:			
Basic net income per share before extraordinary loss	\$62.1	156.1	\$ 0.40
Effect of dilutive securities:			
Stock options	—	5.8	(0.01)
Diluted net income per share before extraordinary loss	\$62.1	161.9	\$ 0.39

Note 7: Extraordinary Loss

As described in Note 1, 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 statement of operations for the nine months ended September 30, 2000.

Note 8: 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 will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Note 9: Related Party Transactions

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

	Quarter Ended September 30, 2000	Nine Months Ended September 30, 2000	Period from August 4, 1999 to October 2, 1999
Purchases of manufacturing services from Motorola	\$40.7	\$121.2	\$14.8
Cost of other services, rent and equipment purchased from Motorola	\$22.7	\$ 69.4	\$ 1.6

Note 10: Recent Accounting Pronouncements

SFAS 133

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes standards for the accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and hedging activities. This statement generally requires recognition of gains and losses on hedging instruments based on changes in fair value. SFAS 133, as amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133", and SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", is effective for the Company as of January 1, 2001. If SFAS 133 were to be adopted as of September 30, 2000, the Company would recognize a gain primarily relating to outstanding sales orders at foreign local functional currency entities that are denominated in US dollars. The amount of this gain, if any, to be recognized upon adoption of SFAS 133 in January 1, 2001 is dependent upon exchange rate fluctuations that will occur in the future. Accordingly, the Company is unable to reasonably estimate the impact of adoption of SFAS 133 on its financial statements beginning January 1, 2001.

SAB 101

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC and, as amended, will be effective for the Company in the fourth quarter of 2000. The Company does not expect the implementation of SAB 101 to have a material effect on its results of operations.

SEMICONDUCTOR COMPONENTS GROUP OF MOTOROLA, INC.
**COMBINED STATEMENTS OF REVENUES LESS DIRECT AND
ALLOCATED EXPENSES BEFORE TAXES**
(Unaudited, in millions)

	July 4, 1999 through August 3, 1999	January 1, 1999 through August 3, 1999
Revenues:		
Net sales — trade	\$120.9	\$895.4
Direct and allocated costs and expenses:		

Cost of sales	77.7	620.3
Research and development	4.9	34.3
Selling and marketing	5.1	39.0
General and administrative	12.5	89.4
	—	—
Operating costs and expenses	100.2	783.0
	—	—
	20.7	112.4
	—	—
Other income (expenses):		
Interest expense	(1.4)	(9.1)
Equity in earnings from joint ventures	0.3	2.4
Minority interest in (earnings) losses of consolidated entities	0.1	(0.9)
	—	—
Other expenses, net	(1.0)	(7.6)
	—	—
Revenues less direct and allocated expenses before taxes	\$ 19.7	\$104.8
	—	—

See accompanying notes to combined financial statements.

SEMICONDUCTOR COMPONENTS GROUP OF MOTOROLA, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The Semiconductor Components Group (“SCG” or “the Business”) is defined as the discrete and integrated circuits standard products of the Semiconductor Products Sector (“SPS”) of Motorola, Inc. (“Motorola”), including Power BiPolar, Rectifiers, Thyristors, Zeners, TMOS, Analog, ECL, Small Signal and Logic Products.

The accompanying unaudited combined financial statements of the Business have been prepared in accordance with generally accepted accounting principles for interim financial information and on the basis of presentation as described in Note 1 of the audited combined financial statements included in the Form 10-K/A of ON Semiconductor Corporation and Subsidiaries filed with the SEC on August 14, 2000 and should be read in conjunction with those combined financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements. In the opinion of SCG, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods.

Note 2: Related Party Transactions

SCG manufactures products for other sectors of Motorola. Sales of these products are treated as external sales and are reflected in the accompanying unaudited interim combined statement of revenues less direct and allocated expenses before taxes with the related cost of sales. These sales totaled \$10.1 million and \$76.1 million for the period from July 4, 1999 through August 3, 1999 and the period from January 1, 1999 through August 3, 1999, respectively.

SCG also manufactures products, at cost, for other SPS divisions and these other divisions also manufacture products for SCG. The gross amounts charged to/from SCG for these products are summarized as follows (in millions):

	July 4, 1999 through August 3, 1999	January 1, 1999 through August 3, 1999
Manufacturing services performed by SPS divisions on behalf of SCG	\$20.6	\$147.8
	—	—
Manufacturing services performed by SCG and transferred at actual production cost to other SPS divisions	\$11.4	\$ 91.0
	—	—

Total amounts allocated to SCG by Motorola for research and development, selling and marketing, and general and administrative expenses were as follows (in millions):

July 4, 1999 through August 3, 1999	January 1, 1999 through August 3, 1999
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Research and development	\$1.6	\$13.3
Selling and marketing	\$0.4	\$ 2.2
General and administrative	\$8.2	\$50.0

Note 3: Supplemental Disclosure of Cash Flow Information

Motorola's cash management system is not designed to track centralized cash and related financing transactions to the specific cash requirements of the Business. In addition, SPS's transaction systems are not designed to track receivables and certain liabilities and cash receipts and payments on a business specific basis. Given these constraints, the following data is presented to facilitate analysis of key components of cash flow activity (in millions):

	July 4, 1999 through August 3, 1999	January 1, 1999 through August 3, 1999
Operating activities:		
Revenues less direct and allocated expenses before taxes	\$ 19.7	\$104.8
Depreciation	6.5	77.4
Change in inventories	(22.7)	(27.5)
Change in other current assets	4.0	2.2
Change in other assets	(0.3)	(12.2)
Change in accounts payable and accrued expenses	(1.3)	(23.6)
Change in non-current liabilities	1.5	2.4
Cash flow from operating activities, excluding Motorola financing and taxes	7.4	123.5
Investing activities:		
Capital expenditures, net of transfers	(2.5)	(39.6)
Net financing provided to Motorola*	\$ 4.9	\$ 83.9

* The difference between cash flow from operating activities and investing activities does not necessarily represent the cash flows of the Business, or the timing of such cash flows, had it operated on a stand-alone basis.

Note 4: Interest expense

Motorola had net interest expense on a consolidated basis for all periods presented. This amount has been allocated to SPS and in turn to SCG in the amount of \$1.0 million and \$7.5 million for the period from July 4, 1999 through August 3, 1999 and the period from January 1, 1999 through August 3, 1999, respectively, primarily on the basis of net assets. Management believes this allocation is reasonable, but it is not necessarily indicative of the cost that would have been incurred if the Business had been operated on a stand-alone basis.

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 for the period from August 4, 1999 through December 31, 1999 included in our Form 10-K/A filed with the SEC on August 14, 2000. Our historical pre-recapitalization combined financial statements present the combined revenues less direct and allocated expenses before taxes of the business of Motorola's Semiconductor Components Group prior to our August 4, 1999 recapitalization and are not intended to be a complete presentation of the results of operations or cash flows of the Company. The results of operations before taxes are not necessarily indicative of the results of operations before taxes that would have been recorded by us on a stand-alone basis. Our historical post-recapitalization consolidated financial statements present the consolidated financial position and results of operations of the Company on a stand-alone basis. 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.

ON Semiconductor designs and manufactures analog power management and broadband integrated circuits as well as other semiconductor components. The company plans to introduce over 400 new products in 2000, anticipating the need for faster data flow for computing on the Internet and more efficient use of power in wireless, consumer, computing and automotive markets. ON Semiconductor serves its customers through a global supply chain of factories located in Arizona (headquarters), Rhode Island,

China, Czech Republic, Slovakia, Japan, Malaysia, Mexico and the Philippines as well as through a global network of distributors and contract manufacturers.

In April 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 See discussion in Note 2 of the Notes to Consolidated Financial Statements for the period from January 1, 2000 to September 30, 2000 included in this Form 10-Q.

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	\$ 76.4
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)	80.6
	<u>253.2</u>

In May 2000, we completed our initial public offering of common stock, selling 34.5 million shares with an issue price of \$16 per share. Net proceeds from this offering (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. In connection with this debt prepayment, we incurred an extraordinary loss of \$29.2 million (\$17.5 million, or \$0.11 per share, net of income taxes) related to prepayment penalties and redemption premiums as well as the write-off of capitalized debt issuance costs.

Results of Operations

Earnings per common share. Our net income was \$0.17 per share on a diluted basis for the quarter ended September 30, 2000. For the nine months ended September 30, 2000, our net income was \$0.28 per share on a diluted basis. Excluding the amortization of goodwill and other intangibles resulting from the Cherry acquisition, the write-off of acquired in-process research and development, the first quarter restructuring charge relating to the Guadalajara, Mexico manufacturing facility, and the extraordinary loss on debt prepayment, all on an after-tax basis, our net income per common share was \$0.19 and \$0.54 on a diluted basis for the quarter and the nine months ended September 30, 2000, respectively, as follows:

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	Quarter Ended September 30, 2000		Nine Months Ended September 30, 2000	
	in millions	per share	in millions	per share
Net income	\$29.9		\$53.4	
Less: Redeemable preferred stock dividends	—		(8.8)	
Net income available for common stock	29.9	\$ 0.17	44.6	\$ 0.28
Plus:				
Amortization of goodwill and other intangibles	3.3	0.02	6.6	0.04
Write-off of acquired in-process research and development	—	—	16.1	0.09
Guadalajara restructuring charge	—	—	3.0	0.02
Extraordinary loss	—	—	17.5	0.11
Adjusted net income available for common stock	<u>\$33.2</u>	<u>\$ 0.19</u>	<u>\$87.8</u>	<u>\$ 0.54</u>
Weighted average common shares outstanding — diluted		<u>177.1</u>		<u>161.9</u>

Quarter Ended September 30, 2000 Compared To Quarter Ended October 2, 1999

The following table summarizes certain information relating to our historical operating results for the quarter ended October 2, 1999, which has been derived from our historical combined financial statements and our historical post-recapitalization consolidated financial statements. Comparative information is also provided for the quarter ended September 30, 2000, as follows:

	Pre-Recapitalization	Post-Recapitalization	Quarter Ended	Quarter Ended
	July 4 through August 3, 1999	August 4 through October 2, 1999	October 2, 1999	September 30, 2000
	(in millions)			
Revenues:				
Net product revenues	\$120.9	\$301.0	\$421.9	\$539.0
Foundry revenues	—	28.0	28.0	4.2
Total revenues	120.9	329.0	449.9	543.2
Cost of sales	77.7	241.6	319.3	349.2
Gross profit	43.2	87.4	130.6	194.0
Operating expenses:				
Research and development	4.9	6.9	11.8	20.3
Selling and marketing	5.1	8.8	13.9	27.5
General and administrative	12.5	32.0	44.5	64.4
Amortization of goodwill and other intangibles	—	—	—	5.4
Total operating expenses	22.5	47.7	70.2	117.6
Operating income	20.7	39.7	60.4	76.4
Other income (expenses):				
Interest expense	(1.4)	(22.6)	(24.0)	(31.9)
Equity in earnings of joint ventures	0.3	0.7	1.0	2.1
Other income (expenses)	(1.1)	(21.9)	(23.0)	(29.8)
Income before income taxes and minority interests	19.6	17.8	37.4	46.6
Minority interests	0.1	(0.4)	(0.3)	(0.7)
Revenues less direct and allocated expenses before taxes	19.7	17.4	37.1	45.9
Provision for income taxes	—	14.9	14.9	16.0
Net income	\$ 19.7	\$ 2.5	\$ 22.2	\$ 29.9

Total revenues. Total revenues increased \$93.3 million, or 20.7%, to \$543.2 million in the third quarter of 2000 from \$449.9 million in the third quarter of 1999, due to an increase in net product revenues and the inclusion of foundry revenues as a component of total revenues after our Recapitalization.

Net product revenues. Net product revenues increased \$117.1 million, or 27.8%, to \$539.0 million in the third quarter of 2000 from \$421.9 million in the third quarter of 1999.

Net revenues for standard analog products, which accounted for 27.9% of net product revenues in the third quarter of 2000, increased 79.3% compared to the third quarter of 1999 as a result of the Cherry acquisition, increased demand in the power management market and our focus on expanding the sales of this product line. Net revenues for logic products, which accounted for 23.7% of net product revenues in the third quarter of 2000, increased 25.0% compared to the third quarter of 1999 due to a strong increase in demand for emitter-coupled logic (“ECL”) products and, to a lesser extent, an increase in demand for standard logic products. Net revenues for discrete products, which accounted for 48.4% of net product revenues in the third quarter of 2000, increased 10.8% compared to the third quarter of 1999 mainly fueled by increased demand in micropackaged products within the small signal and rectifier product families. Other product families, including zeners, thyristors, and TMOS, also experienced revenue growth due to increases in demand.

Approximately 45%, 36% and 19% of our net product revenues in the third quarter of 2000 were derived from the Americas, Asia/ Pacific and Europe (including the Middle East), respectively, compared to 47%, 35% and 18%, respectively, in the third quarter of 1999.

Foundry revenues. Foundry revenues decreased \$23.8 million, or 85.0%, to \$4.2 million in the third quarter of 2000 from \$28.0 million in the third quarter of 1999. 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 as the separation with Motorola progresses. Motorola continues

to be one of our largest original equipment manufacturer (OEM) customers, and those product revenues are distinctly different from the aforementioned foundry revenues. Prior to our Recapitalization, Motorola recorded foundry revenues as an offset to cost of sales at cost.

Cost of sales. Cost of sales increased \$29.9 million, or 9.4%, to \$349.2 million in the third quarter of 2000 from \$319.3 million in the third quarter of 1999, primarily as a result of increased sales volume.

Gross profit. Gross profit (computed as total revenues less cost of sales) increased \$63.4 million, or 48.5%, to \$194.0 million in the third quarter of 2000 from \$130.6 million in the third quarter of 1999. As a percentage of total revenues, gross margin improved to 35.7% (36.2% for product gross margin) in the third quarter of 2000 from 29.0% in the third quarter of 1999. The improvement in gross profit resulted mainly from reductions in costs from our restructuring programs, increased sales volume and a shift in product mix toward higher margin products, including ECL and analog families.

Operating expenses

Research and development. Research and development costs increased \$8.5 million, or 72.0%, to \$20.3 million in the third quarter of 2000 from \$11.8 million in the third quarter of 1999, primarily as a result of the Cherry acquisition and increased investments in research and development, offset by the elimination of corporate allocations from Motorola incurred in 1999. As a percentage of net product revenues, research and development costs increased to 3.8% in the third quarter of 2000 from 2.8% in the third quarter of 1999. As of September 30, 2000, we have introduced 106 new products in the third quarter of 2000. The main emphasis of our new product development is in the high growth market applications of power management and broadband solutions 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 increased by \$13.6 million, or 97.8%, to \$27.5 million in the third quarter of 2000 from \$13.9 million in the third quarter of 1999. The increase in selling and marketing expenses was attributable to the Cherry acquisition and increased branding and marketing costs associated with establishing the ON Semiconductor™ trade name. As a percentage of net product revenues, these costs increased to 5.1% in the third quarter of 2000 from 3.3% in the third quarter of 1999.

General and administrative. General and administrative expenses increased by \$19.9 million, or 44.7% to \$64.4 million in the third quarter of 2000 from \$44.5 million in the third quarter of 1999, as a result of the Cherry acquisition, costs incurred to establish corporate functions, costs resulting from our separation from Motorola, higher performance bonuses in the third quarter of 2000 and investments in tax planning. As a percentage of net product revenues, these costs increased to 11.9% in the third quarter of 2000 from 9.0% in the third quarter of 1999.

Amortization of goodwill and other intangibles. Amortization of goodwill and other intangibles increased to \$5.4 million in the third quarter of 2000 from zero in the third quarter of 1999. This increase was due to the intangible assets that were acquired from Cherry, including amounts related to developed technology, assembled workforce and goodwill.

Operating income. Operating income increased \$16.0 million, or 26.5%, to \$76.4 million in the third quarter of 2000 from \$60.4 million in the third quarter of 1999. This increase was due to increased net product revenues, an improved product mix towards higher-margin products and cost reductions from our prior period restructuring programs, offset by increased costs associated with our separation from Motorola and the amortization of goodwill and other intangibles. Cost

reductions resulting from our prior period restructuring programs relate to the consolidation of manufacturing operations and the relocation or outsourcing of related operations to take advantage of lower-cost labor markets. We expect that the cost reduction program that we established this year will result in savings of approximately \$80 million by year-end with additional benefits to occur in 2001.

Interest expense. Interest expense increased \$7.9 million, or 32.9% to \$31.9 million in the third quarter of 2000 from \$24.0 million in the third quarter of 1999, due to borrowings under our senior bank facilities and the issuance of our senior subordinated notes and our junior subordinated note in order to finance our Recapitalization. A portion of the interest expense for the third quarter of 1999 was an allocation we received from Motorola.

Equity in earnings of joint ventures. Equity in earnings from joint ventures increased \$1.1 million to \$2.1 million in the third quarter of 2000 from \$1.0 million in the third quarter of 1999, due primarily to increased capacity and manufacturing efficiencies in our Chinese joint venture and improved capacity utilization in both our Chinese and Malaysian joint ventures.

Minority interests. Minority interests represent the portion of net income 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 increased to \$0.7 million in the third quarter of 2000 from \$0.3 million in the third quarter of 1999.

Provision for income taxes. Provision for income taxes increased \$1.1 million, or 7.4% to \$16.0 million in the third quarter of 2000 from \$14.9 million in the third quarter of 1999. A provision for taxes was not made for periods prior to our Recapitalization.

Our effective tax rate decreased in the third quarter of 2000 as compared to the third quarter of 1999 primarily due to increased research and foreign tax credits.

Nine Months Ended September 30, 2000 Compared to the Nine Months Ended October 2, 1999

The following table summarizes certain information relating to our historical operating results for the nine months ended October 2, 1999, which has been derived from our historical combined financial statements and our historical post-recapitalization consolidated financial statements. Comparative information is also provided for the nine months ended September 30, 2000, as follows:

	Pre-Recapitalization	Post-Recapitalization	Nine Months Ended	Nine Months Ended
	January 1 through August 3, 1999	August 4 through October 2, 1999	October 2, 1999	September 30, 2000
	(in millions)			
Revenues:				
Net product revenues	\$895.4	\$301.0	\$1,196.4	\$1,521.5
Foundry revenues	—	28.0	28.0	59.0
Total revenues	895.4	329.0	1,224.4	1,580.5
Cost of sales	620.3	241.6	861.9	1,030.3
Gross profit	275.1	87.4	362.5	550.2
Operating expenses:				
Research and development	34.3	6.9	41.2	48.6
Selling and marketing	39.0	8.8	47.8	73.3
General and administrative	89.4	32.0	121.4	175.0
Amortization of goodwill and other intangibles	—	—	—	10.9
Write-off of acquired in-process research and development	—	—	—	26.9
Restructuring charges	—	—	—	4.8
Total operating expenses	162.7	47.7	210.4	339.5
Operating income	112.4	39.7	152.1	210.7
Other income (expenses):				
Interest expense	(9.1)	(22.6)	(31.7)	(100.4)
Equity in earnings of joint ventures	2.4	0.7	3.1	4.3
Other income (expenses)	(6.7)	(21.9)	(28.6)	(96.1)
Income before income taxes and minority interests	105.7	17.8	123.5	114.6
Minority interests	(0.9)	(0.4)	(1.3)	(1.9)
Revenues less direct and allocated expenses before taxes	104.8	17.4	122.2	112.7
Provision for income taxes	—	14.9	14.9	41.8
Net income before extraordinary loss	104.8	2.5	107.3	70.9
Extraordinary loss on debt prepayment	—	—	—	(17.5)
Net income	\$104.8	\$ 2.5	\$ 107.3	\$ 53.4

Total revenues. Total revenues increased \$356.1 million, or 29.1%, to \$1,580.5 million in the first nine months of 2000 from \$1,224.4 million in the first nine months of 1999, due to an increase in net product revenues and the inclusion of foundry revenues as a component of total revenues after our Recapitalization.

Net product revenues. Net product revenues increased \$325.1 million, or 27.2%, to \$1,521.5 million in the first nine months of 2000 from \$1,196.4 million in the first nine months of 1999.

Net revenues for standard analog products, which accounted for 25.4% of net product revenues in the first nine months of 2000, increased 67.0% compared to the first nine months of 1999 as a result of the Cherry acquisition, increased demand in the power management market and our focus on expanding the sales of this product line. Net revenues for logic products, which accounted for 24.5% of net product revenues in the first nine months of 2000, increased 45.0% compared to the first nine months of 1999 due to increased demand for ECL products, which was partially offset by reduced emphasis on older standard logic product families and the discontinuation of a related product line. Net revenues for discrete products, which accounted for 50.1% of net product revenues in the first nine months of 2000, increased 14.1% compared to the first nine months of 1999 fueled by increased demand in most of our product families.

Approximately 46%, 33% and 21% of our net product revenues in the first nine months of 2000 were derived from the Americas, Asia/ Pacific and Europe (including the Middle East), respectively, which is consistent with the net product revenues generated by region in the first nine months of 1999.

Foundry revenues. Foundry revenues increased \$31.0 million, or 110.7%, to \$59.0 million in the first nine months of 2000 from \$28.0 million in the first nine months of 1999. 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 as the separation with Motorola progresses. Motorola continues to be one of our largest original equipment manufacturer (OEM) customers, and those product revenues are distinctly different from the aforementioned foundry revenues. Prior to our recapitalization, Motorola recorded foundry revenues as an offset to cost of sales at cost.

Cost of sales. Cost of sales increased \$168.4 million, or 19.5%, to \$1,030.3 million in the first nine months of 2000 from \$861.9 million in the first nine months of 1999, primarily as a result of increased sales volume and the inclusion of cost of foundry sales as a component of cost of sales after our recapitalization.

Gross profit. Gross profit (computed as total revenues less cost of sales) increased \$187.7 million, or 51.8%, to \$550.2 million in the first nine months of 2000 from \$362.5 million in the first nine months of 1999. As a percentage of total revenues, gross margin improved to 34.8% in the first nine months of 2000 from 29.6% in the first nine months of 1999. The improvement in gross profit resulted mainly from reductions in costs from our restructuring programs, increased sales volume and a shift in product mix toward higher margin products, including ECL and analog families.

Operating expenses

Research and development. Research and development costs increased \$7.4 million, or 18.0%, to \$48.6 million in the first nine months of 2000 from \$41.2 million in the first nine months of 1999. As a percentage of net product revenues, research and development costs decreased to 3.2% in the first nine months of 2000 from 3.4% in the first nine months of 1999. However, this decline is due to the discontinuance of general research and development expense allocations we received from Motorola prior to our Recapitalization. As of September 30, 2000, we have introduced 260 new products since the beginning of the year, and we anticipate total new product introductions for 2000 in excess of 400, as compared to 206 product introductions in 1999. The main emphasis of the Company's new product development is in the high growth market applications of power management and broadband solutions 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 increased by \$25.5 million, or 53.3%, to \$73.3 million in 2000 from \$47.8 million in the first nine months of 1999. The increase in selling and marketing expenses was attributable to the Cherry acquisition and increased branding and marketing costs associated with establishing the ON Semiconductor(TM) trade name. As a percentage of net product revenues, these costs increased to 4.8% in the first nine months of 2000 from 4.0% in the first nine months of 1999.

General and administrative. General and administrative expenses increased by \$53.6 million, or 44.2% to \$175.0 million in the first nine months of 2000 from \$121.4 million in the first nine months of 1999, as a result of the Cherry acquisition, costs incurred to establish corporate functions and other costs resulting from our separation from Motorola as well as higher performance bonuses in the first nine months of 2000 and investments in tax planning. As a percentage of net product revenues, these costs increased to 11.5% in the first nine months of 2000 from 9.6% in the first nine months of 1999.

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 1999.

Amortization of goodwill and other intangibles. Amortization of goodwill and other intangibles increased to \$10.9 million in the first nine months of 2000 from zero in the first nine months of 1999. This increase was due to the intangible assets that were acquired from Cherry, including amounts related to developed technology, assembled workforce and goodwill.

Restructuring charges. In March 2000, we recorded a \$4.8 million charge (\$3.0 million or \$0.02 per share, net of income taxes), 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 equipment write-downs that were charged directly against the related assets.

In September 2000, the Company completed a detailed evaluation of the costs to be incurred to complete the March 2000 restructuring. Based on this evaluation, the Company released \$0.8 million of its remaining restructuring reserve for employee separation costs to income as a credit to restructuring charges in the consolidated statement of operations. Also in conjunction with this evaluation, the Company recorded an additional charge of \$0.8 million for asset impairments that were charged directly against the related assets.

In addition to the charge related to the March 2000 restructuring, our restructuring reserves also include charges from prior restructurings, which have not yet been paid. A summary of activity in our restructuring reserves during the first nine months of 2000 is as follows (in millions):

	Balance as of December 31, 1999	Additional Reserves	Amounts Used	Amounts Released	Balance as of September 30, 2000
Consolidation of manufacturing operations	\$6.0	\$ —	\$ (5.5)	\$ —	\$0.5
Employee separations	3.5	3.2	(4.9)	(0.8)	1.0
Total restructuring	\$9.5	\$3.2	\$(10.4)	\$(0.8)	\$1.5

Operating income. Operating income increased by \$58.6 million, or 38.5%, to \$210.7 million in the first nine months of 2000 from \$152.1 million in the first nine months of 1999. This increase was due to increased net product sales, an improved product mix towards higher-margin products and cost reductions from our restructuring programs, offset by charges associated with the Guadalajara restructuring, additional costs incurred from our separation from Motorola, the write-off of in-process research and development and the amortization of goodwill and other intangibles. Cost reductions resulting from our restructuring programs relate to the consolidation of manufacturing operations and the relocation or outsourcing of related operations to take advantage of lower-cost labor markets. We expect that the cost reduction program that we established this year will result in savings of approximately \$80 million by year-end with additional benefits to occur in 2001.

Interest expense. Interest expense increased \$68.7 million, to \$100.4 million in the first nine months of 2000 from \$31.7 million in the first nine months of 1999, due to borrowings under our senior bank facilities and the issuance of our senior subordinated notes and our junior subordinated note in order to finance our Recapitalization. The \$31.7 million interest expense for the first nine months of 1999 includes allocations that we received from Motorola.

Equity in earnings of joint ventures. Equity in earnings from joint ventures increased \$1.2 million, to \$4.3 million in the first nine months of 2000 from \$3.1 million in the first nine months of 1999, due primarily to increased capacity and manufacturing efficiencies in our Chinese joint venture and improved capacity utilization in both our Chinese and Malaysian joint ventures.

Minority interests. Minority interests represent the portion of net income 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 increased to \$1.9 million in the first nine months of 2000 from \$1.3 million in the first nine months of 1999.

Provision for income taxes. Provision for income taxes increased \$26.9 million, or 180.5% to \$41.8 million in the first nine months of 2000 from \$14.9 million in the first nine months of 1999. No provision for taxes was made for periods prior to our Recapitalization. Our effective tax rate decreased in the first nine months of 2000 as compared to the first nine months of 1999 primarily due to increased research and foreign tax credits.

Liquidity and Capital Resources

Prior to our Recapitalization, Motorola performed cash management on a centralized basis, and its Semiconductor Products Sector processed receivables and payables, payroll and other activities for the Semiconductor Components Group. Most of these systems were not designed to track receivables, liabilities, cash receipts and payments on a division-specific basis. Accordingly, it is not practical to determine assets and liabilities associated with the Semiconductor Components Group prior to our Recapitalization.

For the first nine months of 2000, net cash provided by operating activities was \$223.5 million. Cash generated from operating activities was due primarily to net income of \$53.4 million, adjusted for non-cash charges, including depreciation and amortization of \$117.3 million, the write-off of acquired in-process research and development costs of \$26.9 million and non-operating charges relating to the extraordinary loss on debt prepayment of \$29.2 million. Cash generated from operating activities was also affected by changes in assets and liabilities including an increase in accounts payable of \$40.5 million and an increase in accrued expenses of \$39.3 million, offset by an increase in receivables of \$25.7 million, an increase in other assets of \$18.4 million and an increase in inventories of \$10.8 million as well as a decrease in income taxes payable of \$17.6 million and a decrease in accrued interest of \$19.9 million.

Net cash used in investing activities was \$386.8 million for the first nine months of 2000 due to a net cash outflow of \$253.2 million resulting from the Cherry acquisition, capital expenditures of \$126.0 million and loans to and investments in unconsolidated entities totaling \$25.5 million, offset by proceeds from sales of property, plant and equipment of \$17.9 million. Capital expenditures in 2000 are expected to be approximately \$190 million and will be used primarily to improve our assembly and test facilities in low-cost regions and for new information technology systems.

Net cash provided by financing activities was \$195.9 million for the first nine months of 2000. Cash inflows from financing activities consisted of borrowings from senior credit facilities used to finance the Cherry acquisition, and proceeds from our initial public offering. In May 2000, we sold 34.5 million shares with an issue price of \$16 per share. Net proceeds from this offering (after deducting issuance costs) were approximately \$514.8 million. Cash outflows from financing activities included the redemption of our outstanding preferred stock of \$228.4 million (including accrued dividends), the redemption of a portion of our senior subordinated notes of \$156.8 million (including prepayment penalties) and the prepayment of a portion of the loans outstanding under our senior bank facilities totaling \$131.5 million (including prepayment penalties).

As of September 30, 2000, we had \$869.3 million of indebtedness outstanding under our senior bank facilities and stockholders' equity of \$314.9 million. As of September 30, 2000, \$136.4 million of our \$150 million revolving facility was available, reflecting outstanding letters of credit of \$13.6 million. In addition, the credit agreement relating to our senior bank facilities, the indenture relating to our senior subordinated notes and the terms of our junior subordinated note allow us to incur further additional indebtedness. We are required to begin making principal payments on our senior bank facilities in 2001. Our ability to make payments on and to refinance our indebtedness, including our senior bank facilities, senior subordinated notes and junior subordinated note, 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 general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Further, the credit agreement relating to our senior bank facilities, the indenture relating to our senior subordinated notes and the terms of our junior subordinated note currently do, and other debt instruments we enter into in the future may, impose various restrictions and covenants that could limit our ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities.

Our primary future cash needs, both in the short term and in the long term, will continue to be for capital expenditures, debt service, working capital and potential business acquisitions. We believe that cash flows from operations will be sufficient to enable us to service our indebtedness and to fund our other liquidity needs (other than potential business acquisitions) for the next 12 months. As part of our business strategy, we continuously review acquisition opportunities and proposals. We expect to finance any future acquisitions with borrowings under our revolving credit facility and additional equity and debt financing, to the extent available on attractive terms.

Recent Accounting Pronouncements

SFAS 133

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes standards for the accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and hedging activities. This statement generally requires recognition of gains and losses on hedging instruments based on changes in fair value. SFAS 133, as amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133", and SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", is effective for us as of January 1, 2001. If SFAS 133 were to be adopted as of September 30, 2000, we would recognize a gain primarily relating to outstanding sales orders at foreign local functional currency entities that are denominated in US dollars. The amount of this gain, if any, to be recognized upon adoption of SFAS 133 in January 1, 2001 is dependent upon exchange rate fluctuations that will occur in the future. Accordingly, we are unable to reasonably estimate the impact of adoption of SFAS 133 on our financial statements beginning January 1, 2001.

SAB 101

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC and, as amended, will be effective for the Company in the fourth quarter of 2000. We do not expect the implementation of SAB 101 to have a material affect 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 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 this Quarterly Report are made based on management's current expectations and estimates, which involve risks, uncertainties and other factor that could cause results to differ materially from those expressed in forward-looking statements. Among these factors are changes in overall economic conditions, changes in demand 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, litigation, risks associated with acquisitions, changes in management, and risks involving environmental or other governmental regulations. Additional factors that could affect the Company's future operating results are described under "Risk Factors" in the Registration Statement on Form S-1 and the Prospectus dated April 27, 2000 relating to our initial public offering. 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

Although a substantial portion of our transactions are denominated in U.S. dollars, we are exposed to foreign currency exchange rate risk due to our operations outside of the U.S. Our strategy is to utilize forward currency exchange contracts to hedge these foreign currency exposures, with the intent of offsetting gains and losses that occur on the underlying exposures with losses and gains on the forward currency exchange contracts. Our exchange rate risk management 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.

We do not have any exposure to rate changes for our senior subordinated notes or our junior subordinated note. However, we do have interest rate exposure with respect to the \$869.3 million outstanding at September 30, 2000 under our senior bank facilities due to their variable pricing. As of September 30, 2000, we had two interest rate swaps, which became effective in February 2000, to cover the exposure on \$255.0 million of the senior bank facilities.

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 will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Item 2. Changes in Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits —

Exhibit No.	Exhibit Description
Exhibit 3.1	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation (as of August 9, 2000)
Exhibit 10.1	Amendment No. 1 to Employment Agreement for James Thorburn, dated as of July 20, 2000
Exhibit 10.2	Promissory Note, dated July 21, 2000, from James Thorburn to Semiconductor Components Industries, LLC
Exhibit 10.3	Deed of Trust, dated as of July 20, 2000, with James Thorburn as Trustee and Semiconductor Components Industries, LLC as Beneficiary
Exhibit 27	Financial Data Schedule

(b) Reports on Form 8-K —

During the third quarter of 2000, the Company filed one report on Form 8-K dated and filed on August 9, 2000. The August 9, 2000 report, which was filed pursuant to Items 5 and 7, reported the Company's name change to ON Semiconductor Corporation, and included as an exhibit a press release dated August 9, 2000 titled "SCG Holding Corporation is Now ON Semiconductor Corporation."

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.

ON SEMICONDUCTOR CORPORATION
(Registrant)

/s/ DARIO SACOMANI

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

Date: November 14, 2000

EXHIBIT INDEX

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AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF ON SEMICONDUCTOR CORPORATION
(AS OF AUGUST 9, 2000)

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

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

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

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

FIRST: The name of the corporation is:

ON Semiconductor Corporation.

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

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

FOURTH:

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

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

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

(a) The designation of such series.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

any other persons whomsoever by and pursuant to this Amended and Restated Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article EIGHTH.

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

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

stockholders held in 2000, Class II directors for an initial term ending at the annual meeting of stockholders held in 2001 and Class III directors for an initial term ending at the annual meeting of stockholders held in 2002. At each annual meeting of stockholders beginning in 2000, successors to the directors in the class whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

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

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

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

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

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

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

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

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

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

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

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

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

AMENDMENT NO. 1 TO
EMPLOYMENT AGREEMENT
FOR JAMES THORBURN

WHEREAS, Semiconductor Components Industries, LLC (the "Company") and James Thorburn (the "Executive") entered into an Employment Agreement dated November 8, 1999 (the "Agreement");

WHEREAS, the Company and the Executive wish to amend the Agreement to provide, among other things, for certain payments in lieu of certain relocation benefits provided in the Agreement, to include a loan for the purchase of a primary residence located at 8635 N. 65th Street, Paradise Valley, Arizona, to provide for a bonus payment in connection with Parent's initial public offering, and to extend the term of the Agreement (the "Amendment"); and

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

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

1. Section 2 (g) of the Agreement is hereby amended by replacing such section in its entirety with the following:

(g) On or before ten (10) days after the signing of this Amendment but in any event by the date of the closing of the purchase of the Property (as defined below), the Company shall pay the Executive a one-time lump-sum payment of \$531,000, consisting of (i) \$400,000 in respect of the relocation expenses deemed to have been incurred by the Executive (whether or not the Executive actually sells his residence in California) and (ii) \$131,000 in respect of amounts the Executive would have received as a housing allowance and travel expenses for the Executive and the Executive's spouse and children. In addition to the foregoing payment, on or before thirty (30) days after the signing of this Amendment, the Company shall pay the Executive an additional payment ("Gross-Up Payment") in an amount sufficient to pay the Executive's federal, state and local income taxes in respect of the payments provided for in this Section 2(g)(i) and Section 2(g)(ii) plus the federal, state and local income taxes to be incurred by the Executive in calendar year 2000 as a result of such payment, determined based on the Executive's highest marginal federal, state and local income tax rates. The Executive hereby agrees to cooperate with reasonable requests for information and documentation in order for the Company to determine the Gross-Up Payment in respect of the payments provided for in this Section 2(g)(i) and Section 2(g)(ii).

2. Section 2 of the Agreement is hereby amended by adding the following section:

(j) On or before ten (10) days after the signing of this Amendment but in any event by the date of the closing of the purchase of the Property (as defined below), the Company

shall pay the Executive a one-time lump-sum bonus payment of \$100,000 in connection with Executive's work on the Parent's initial public offering of its common stock (the "IPO Bonus"). In addition to the foregoing payment, on or before thirty (30) days after the signing of this Amendment, the Company shall pay the Executive a Gross-Up Payment in respect of the payment provided for in this Section 2(j). The Executive hereby agrees to cooperate with reasonable requests for information and documentation in order for the Company to determine the Gross-Up Payment in respect of the payment provided for in this Section 2(j).

3. Section 2 of the Agreement is hereby amended by adding the following section:

(k)(i) The Company hereby agrees to provide the Executive with a loan (the "Loan"), secured by a first priority deed of trust lien, in the amount of \$1,469,000 for the purchase of the primary residence located at 8635 N. 65th Street, Paradise Valley, Arizona (the "Property").

(ii) The Loan will be funded by the date of the closing of the purchase of the Property (the "Loan Date"). The Loan shall accrue interest (the "Interest") at a rate determined by the Applicable Federal Rates in effect for the month in which the Loan is funded, which shall remain fixed during the term of the Loan and shall be compounded annually. The principal amount of the Loan plus any accrued Interest shall be due and payable to the Company on the earlier of (x) the fifth anniversary of the Loan Date or (y) no later than 90 days after the termination of the Executive's employment with the Company for any reason. In the event the Executive is actively employed with the Company on the fifth anniversary of the Loan Date, the Board of Directors of the Parent ("Parent Board") may consider (1) forgiving up to 50% of the principal amount of the Loan and/or accrued Interest if the Parent achieves the established Market Share Target (described in Appendix I hereto) for the five-year period ended on the last day of the fiscal quarter immediately preceding the fifth anniversary of the Loan Date, and (2) forgiving up to 50% of the principal amount of the Loan and/or accrued Interest if the Parent achieves the established Gross Margin Percentage Target (described in Appendix I hereto) for the five year period ended on the last day of the fiscal quarter immediately preceding the fifth anniversary of the Loan Date. The Parent Board shall notify the Executive of its determination no later than five days before the fifth anniversary of the Loan Date. For the avoidance of doubt, it is in the sole and absolute discretion of the Parent Board to forgive any part of the principal amount of the Loan and/or accrued Interest if either or both of the foregoing targets are achieved.

(iii) The Executive hereby acknowledges and agrees that the Company and the Company shall have the right to withhold any amounts otherwise owed or payable to the Executive (including, without limitation, bonuses and severance pay, but excluding Executive's Base Salary) and apply such amounts to the payment of Loan and Interest to the extent such Loan and Interest shall be due and payable within ninety (90) days of the date of the payment to the Executive.

(iv) All terms and conditions of the Loan and the first deed of trust lien will be governed by a separate promissory note and deed of trust as well as any other documents

that the Company reasonably requires the Executive to execute and the Executive hereby agrees to execute any and all such documents at the request of the Company.

(v) Prior to the fifth anniversary of the Loan Date, in the event of the Executive's employment is terminated due to the Executive's death or Disability, the Parent Board, in its sole and absolute discretion, may consider at the time of the termination event by death or Disability forgiving all or any portion of the principal amount of the Loan and/or accrued Interest.

4. Section 3 of the Agreement is hereby amended by deleting the phrase "third anniversary of the Effective Date" and replacing it with the phrase "fifth anniversary of the Loan Date (as defined in Section 2 (j))."

5. Except as otherwise specifically provided in this Amendment, all terms and conditions of the Agreement shall remain in full force and effect. All defined terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

IN WITNESS WHEREOF, the Executive and the Company have executed this Amendment as of the 20th date of July, 2000.

EXECUTIVE: JAMES THORBURN, IN HIS INDIVIDUAL CAPACITY

By: /s/ JAMES THORBURN

Name: James Thorburn
Title: COO

COMPANY: SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC

By: /s/ STEVE P. HANSON

Name: Steve Hanson
Title: CEO and President

APPENDIX I

1. MARKET SHARE TARGET: 9%
2. GROSS MARGIN PERCENTAGE TARGET: 43.5%

"Market Share" and "Gross Margin Percentage" shall be determined in accordance with the manner in which the Parent, in its sole discretion, calculates and presents the Market Share and Gross Margin Percentage to the Parent Board; provided, however, that to the extent applicable, Market Share and Gross Margin Percentage shall be determined in accordance with generally acceptable accounting principles consistently applied.

PROMISSORY NOTE

\$1,469,000.00
6.62% Interest

Phoenix, AZ
July 21, 2000

James Thorburn and his spouse, Jacqueline Thorburn (collectively referred to as "Thorburn") for value received, hereby promise to pay to the order of Semiconductor Components Industries, LLC ("SCI, LLC"), at its offices located at 5005 East McDowell Rd., Phoenix, AZ 85008, or such other place as the holder hereof may designate by notice to Thorburn, the principal amount of ONE MILLION FOUR HUNDRED SIXTY-NINE THOUSAND DOLLARS (\$1,469,000.00) ("Principal Amount"), plus interest of 6.62 percent per annum, compounded annually ("Interest") (Interest payable hereunder shall be computed on the basis of actual days elapsed and a year of 360 days), in lawful money of the United States, in the manner set forth in Section 1 hereof.

1. Payment/Prepayment.

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

(b) This Note will be funded by the date of the closing of the purchase of the Property (as defined below) (the "Loan Date"). Unless paid sooner, the Principal Amount plus Interest shall be due and payable to SCI, LLC on the earlier of (x) the fifth anniversary of the Loan Date or (y) no later than 90 days after the termination of Thorburn's employment with SCI, LLC, or its Parent (as such term is defined in Thorburn's Employment Agreement with SCI, LLC) or subsidiaries for any reason. In the event Thorburn is actively employed with SCI, LLC, or its Parent or subsidiaries on the fifth anniversary of the Loan Date, the Board of Directors of SCG Holding Corporation (the "Board") may consider (1) forgiving up to 50% of the Principal Amount and/or Interest if SCG Holding Corporation ("Holding") achieves the established Market Share Target (described in Appendix I hereto) for the five-year period ended on the last day of the fiscal quarter immediately preceding the fifth anniversary of the Loan Date, and (2) forgiving up to 50% of the Principal Amount and/or Interest if Holding achieves the established Gross Margin Percentage Target (described in Appendix I hereto) for the five year period ended on the last day of the fiscal quarter immediately preceding the fifth anniversary of the Loan Date. The Board shall notify Thorburn of its determination no later than five days before the fifth anniversary of the Loan Date. For the avoidance of doubt, it is in the sole and absolute discretion of the Board to forgive any part of the Principal Amount or Interest if either or both of the foregoing targets are achieved.

(c) Prior to the fifth anniversary of the Loan Date, in the event Thorburn's employment is terminated due to Thorburn's death or Disability (as such term is defined in Thorburn's Employment Agreement with SCI, LLC), the Board, in its sole and absolute

discretion, may consider at the time of the termination event by death or Disability forgiving all or any portion of the Principal Amount and/or accrued Interest.

2. Acknowledgement.

Thorburn acknowledges and confirms that (i) SCI, LLC has loaned Thorburn the Principal Amount of the Note for the sole purpose of Thorburn purchasing a primary residence located at 8635 N. 65th Street, Paradise Valley, Arizona (the "Property"); (ii) he will use the proceeds of the Note solely for such purpose; and (iii) SCI, LLC shall have the right to withhold any amounts otherwise payable to Thorburn (including, without limitation, bonuses and severance pay, but excluding his "Base Salary" as that term is defined in Thorburn's Employment Agreement with SCI, LLC) and apply such amounts to satisfy Thorburn's obligations hereunder.

3. Event of Acceleration.

(a) The holder of this Note, by written notice to Thorburn, may declare the entire outstanding Principal Amount plus Interest immediately due and payable in the event that Thorburn breaches any of the terms of the Note, the deed of trust (a form of which is attached hereto) ("Acceleration Event"), in which event the maturity of the then unpaid balance of the Note shall be accelerated and shall become immediately due and payable.

(b) In the event that Thorburn breaches any of the terms of the Note or the deed of trust, and so long as such default remains uncured, at the option of the holder hereof upon acceleration of maturity, the unpaid principal sum hereof shall bear interest at an interest rate equal to the stated interest rate for this Note plus two percent (2%) per annum. At such time as a judgment is obtained for any amounts loaned under this Note or any document or instrument securing this Note, interest shall continue to accrue on the amount of judgment at a rate of interest equal to the stated interest rate for this Note plus two percent (2%) per annum.

4. Security Interest.

As collateral security for the full and timely payment of all amounts due under the Note, Thorburn hereby agrees to grant SCI, LLC a security interest in the Property by executing the deed of trust and Thorburn also agrees to execute any and all additional documents necessary to provide such security interest.

5. Miscellaneous.

(a) Time is of the essence of payment. The undersigned agree to pay a late charge not to exceed an amount equal to the stated interest rate of this Note plus two percent (2%) of any payment which is not paid within five (5) days of the date due to cover the extra expense of handling past due payments.

(b) Thorburn shall pay all costs and expenses incurred by the holder in connection with the collection of the Note, including reasonable attorneys' fees.

(c) Except as provided above, the makers, endorsers, and guarantors of this Note jointly and severally waive diligence, demand, presentment for payment, protest, notice of non-payment and of protest, notice of default, notice of acceleration, and all other notices or demands of any kind. They jointly and severally consent, without notice to them and without release of their liability, to extensions and accommodations given by the holder of this Note, to release modifications and exchanges of any security, and to releases, in whole or in part, of any other maker, endorser, or guarantor. They each agree to make payment without the prior resort by the holder to any security or against any other maker, endorser, or guarantor.

(d) The undersigned hereby agree to pay the contracted rate of interest, which includes interest at the rate set forth herein and all costs and fees associated with obtaining this credit accommodation to the extent any such costs and fees are deemed interest under applicable law.

(e) This Note shall be governed by and construed in accordance with the laws of the State of Arizona applicable to agreements made and to be performed therein without regard to the principles of conflicts of law, and cannot be changed orally.

(f) No delay or failure on the part of the holder of this Note to exercise any power or right given under this Note, including, but not limited to, the right to accelerate the amounts due, shall operate as a waiver of the power or right and no right or remedy of the holder shall be deemed abridged or modified by any course of conduct. All rights and remedies existing hereunder are cumulative and not exclusive of each other or any rights or remedies otherwise available.

(g) All notices and other communications hereunder shall be in writing and shall be deemed given when delivered personally, three days after being mailed by registered mail, return receipt requested, or the following day if sent by overnight courier service, to SCI, LLC, attention: ON Semiconductor, General Counsel, Law Department (M/D A700), at the address set forth at the beginning of this Note and to Thorburn at 5005 East McDowell Rd., Phoenix, AZ 85008, or such other address as either party may specify by notice given pursuant hereto.

(h) To the extent permitted by applicable law, Thorburn hereby waives all benefits that might accrue by virtue of any present or future moratorium laws exempting any of the Property, or any other property, real or personal, or any part of the proceeds arising from any sale of any such property, from attachment, levy, or sale under execution, or providing for any stay of execution to be issued on any judgment recovered on this Note (excepting only any stay of execution).

(i) If any term or provision of this Note or the application thereof to any circumstance shall, to any extent, be invalid, illegal or unenforceable, such term or such provisions shall be ineffective to the extent of such invalidity, illegality or unenforceability without invalidating or rendering unenforceable any remaining terms and provisions hereof or thereof or the application of such term or provision to circumstances other than those as to which it is held invalid, illegal or unenforceable.

(j) This Note shall not be transferable by Thorburn; however, SCI, LLC may transfer the Note to any other person or entity without Thorburn's consent.

/s/ JAMES THORBURN

James Thorburn

/s/ JACQUELINE THORBURN BY JAMES
THORBURN, ATTORNEY IN FACT

Jacqueline Thorburn

APPENDIX I

1. MARKET SHARE TARGET: 9%
2. GROSS MARGIN PERCENTAGE TARGET: 43.5%

"Market Share" and "Gross Margin Percentage" shall be determined in accordance with the manner in which Holding, in its sole discretion, calculates and presents the Market Share and Gross Margin Percentage to the Holding Board; provided, however, that to the extent applicable, Market Share and Gross Margin Percentage shall be determined in accordance with generally acceptable accounting principles consistently applied.

When recorded return to:
ON Semiconductor
Semiconductor Components Industries, LLC
Law Department, M/D A700
5005 E. McDowell Road
Phoenix, AZ 85008
Attn: Judith A. Boyle, Assistant General Counsel

DEED OF TRUST

TRUSTOR: James Thorburn and Jacqueline Thorburn, husband and wife
8635 N. 65th Street
Paradise Valley, AZ 85253

BENEFICIARY: Semiconductor Components Industries, LLC, a Delaware
limited liability company
5005 E. McDowell Road
Phoenix, AZ 85008

TRUSTEE: Old Republic Title Agency, an Arizona corporation
3200 N. Central Avenue
Phoenix, AZ 85012

PROPERTY in Maricopa County, State of Arizona, described as:

See Exhibit A attached hereto and incorporated herein by this
reference.

This Deed of Trust made between the Trustor, Trustee and Beneficiary above
named,

WITNESSETH: That Trustor IRREVOCABLY GRANTS, BARGAINS, SELLS,
CONVEYS, TRANSFERS and ASSIGNS to TRUSTEE, IN TRUST WITH POWER OF SALE, the
above described real property and all buildings and improvements thereon or that
may hereafter be erected thereon, all fixtures, and all equipment, machinery,
and apparatus of every kind and nature now located on said property or hereafter
attached to or used in connection with the property described above, all of
which Trustor represents are and shall be and are intended to be a part of the
realty, together with all permits, licenses, grazing and range rights relating
to or pertaining to said property, if any, together with all and singular the
tenements, hereditaments, and appurtenances, and all of the rents, issues and
profits thereof, and the reversion and reversions, remainder and remainders, and
together with all water rights thereunto belonging, to have and hold unto
Trustee, its successors and assigns forever (hereinafter called "Trust
Property").

FOR THE PURPOSE OF SECURING:

(1) To secure performance of the covenants and agreements herein set forth and payment of Trustor's Note dated the 21st day of July, 2000, in the sum of One Million Four Hundred Sixty-Nine Thousand Dollars (\$1,469,000) and interest as specified therein, and any and all extensions, revisions or renewals thereof in whole or in part.

(2) Performance of each covenant, promise and agreement of Trustor contained herein or incorporated herein by reference; and

(3) Payment of all sums required to be made by Trustor pursuant to the terms hereof. It is understood, however, by Trustor and Beneficiary that Beneficiary shall not be required to make any such additional advances and/or Loans and that, if any such advances and/or Loans are made, they will be made only at such times and in such amounts as Beneficiary may, in its sole discretion, determine.

TO PROTECT THE PROPERTY AND SECURITY GRANTED BY THIS TRUST DEED, IT IS AGREED:

1. Trustor warrants that it is seized of good and merchantable fee simple title to the Trust Property, subject only to reservations in the patent, water right application, obligations arising in favor of water use or irrigation associations or companies (none of the assessments of which are delinquent), current taxes not delinquent, easements and restrictions of record. Trustor acknowledges that all legal descriptions of real estate listed herein were provided by Trustor, warrants the correctness of such descriptions, and agrees that, in the event there does exist an error or defect in such legal descriptions, Trustor authorizes Trustee to do all acts and things and execute all documents deemed necessary by Beneficiary, proper and convenient for the perfection, protection, preservation or enforcement of Beneficiary's rights hereunder.

2. Trustor agrees to pay all indebtedness secured hereby including principal, interest, costs and attorney's fees in accordance with the terms of each evidence of indebtedness.

3. Trustor agrees to pay, before the same becomes delinquent, all taxes, assessments, water and other charges levied or assessed upon or against the Trust Property, and in addition all charges for gas, electricity and other items furnished to or charged against the Trust Property.

Trustor agrees to pay, prior to delinquency, any and all ground rents and amounts payable under any Lease, trust deed, mortgage or other instrument which may be an encumbrance on the Trust Property.

4. Trustor agrees to keep the improvements now or hereafter located on the Trust Property insured against loss by fire and other hazards and casualties in such amounts and for such periods as may be required from time to time by Beneficiary. Trustor also agrees to maintain and keep in force during the term hereof flood hazard insurance as may be or may have been required by Beneficiary or by law or regulation. Trustor agrees to pay the premiums on such insurance, when due and prior to delinquency, and furnish proof of such payment to Beneficiary. All insurance shall be carried in responsible insurance companies approved by

Beneficiary. The policies shall be held by Beneficiary and shall have, at all times, loss payable clauses attached thereto in favor of and approved by Beneficiary.

In the event of any loss or damage to the improvements, Trustor will give immediate notice by mail to Beneficiary and make proper proof of loss (and if not made by Trustor, Beneficiary may make the same). Beneficiary may require that the payment for such loss be paid directly to Beneficiary only and not jointly to Trustor and Beneficiary. Beneficiary may, at its option, apply the payment to the reduction of the indebtedness secured hereby or may apply the same to the restoration or repair of the property damaged. Trustor hereby assigns to Beneficiary all such policies and the payments to be made thereunder.

In the event of foreclosure of this Trust Deed, or exercise of the power of sale given to Trustee, or acquisition of the title to the property by Beneficiary or its assigns, all right, title, and interest of Trustor in and to the policies and proceeds thereof and sums payable thereunder shall forthwith pass automatically to the purchaser of said property.

5. Trustor agrees to keep the buildings and other improvements on the property at all times in good condition and repair. All apparatus and machinery shall be kept in good working order and properly serviced and repaired. Trustor will not allow nor commit any waste, and will not demolish nor structurally alter any buildings on the property, and will do no act to injure or depreciate the value of such property. The property and buildings thereon shall be kept in a reasonably clean, safe and sanitary condition and shall not be allowed to become dilapidated or rundown.

Trustor agrees that it will not remove or allow to be removed any fixture or fixtures from the Trust Property without the prior written consent of Beneficiary. Trustor further agrees that in adding any new fixtures or in substituting fixtures on the Trust Property, prior proof will be furnished Beneficiary that no security exists therein.

6. In the event Trustor fails to make any payment required to be made by it hereunder, or fails to keep the property so insured, or fails to keep the property so repaired, or fails to perform any of its other obligations hereunder, Beneficiary may make any such payment, obtain any such insurance, make any such repairs (Trustor hereby grants Beneficiary the right to go upon the premises for such purpose), or remedy any other default of Trustor. All expenditures made by Beneficiary shall be prima facie evidence of the necessity therefor and reasonableness thereof. Such expenditures, together with all incidental costs of Beneficiary, including reasonable attorney's fees if incurred, shall be immediately due and payable by Trustor to Beneficiary, shall bear interest until paid at the rate of two percent (2%) per month, and shall be secured by this Trust Deed.

7. Trustee and Beneficiary and their officers, employees, and agents may enter upon and inspect the property at any reasonable time or times.

8. The proceeds of any judgment, award or settlement in any condemnation or eminent domain proceeding or on account of injury to the property by reason of public use, or by reason of private trespass, or other injury to the property, shall be paid to Beneficiary, who may at its option, either reapply the proceeds to reduce the indebtedness secured hereby (whether

matured or to mature in the future) or be released to Trustor. Trustor hereby assigns and transfers to Beneficiary all such amounts and proceeds and agrees that Beneficiary may receipt for the same on behalf of Trustor.

9. Trustor by execution of this Deed of Trust assigns and transfers to Beneficiary all of Trustor's right, title and interest in and to all leases, rents, profits or income from the Trust Property and each and every part thereof, including all present and future leases or rental agreements, which assignment and transfer may be enforced by Beneficiary only upon any default by Trustor, existing under this agreement, by any one or more of the following methods: (a) appointment of a receiver; (b) Beneficiary taking possession of the Trust Property; (c) Beneficiary collecting any moneys payable under leases or rental agreements directly from the parties obligated for payment; (d) injunction; or (e) any other method permitted by law.

Unless and until Beneficiary shall elect to collect said rents and rentals, the same shall be collected by Trustor, but Beneficiary may at any time, after Trustor's default, collect all such rents and rentals and Trustor agrees not to hinder or delay Beneficiary in collecting the same.

Any rents or rentals received by Beneficiary shall be applied first to the cost of collection, second to any expenses Beneficiary may expend in making the property ready for or satisfactory to any lessee or tenant, and the remainder shall be applied to the indebtedness secured hereby (whether matured or unmatured) as Beneficiary may elect.

Trustor shall not consent to the cancellation or surrender of any lease on the property, or any portion thereof, having an unexpired term of two (2) years or more, or decrease the rental payable under any lease, or receive or collect more than two (2) month's rent in advance, and Trustor agrees not to default in performing its obligations under all leases on the property.

10. Time is of the essence of this Trust Deed. No failure on the part of Beneficiary to exercise any of its rights hereunder shall be construed as a waiver of or prejudice its rights in the event of any other subsequent default or breach. No delay on the part of Beneficiary in exercising any of its rights hereunder shall preclude it from the exercise thereof at any time during the continuance of any such default. The acceptance of late payments shall not waive the "time is of the essence" provision. All rights and remedies of Beneficiary are cumulative and concurrent, and may be exercised singly, severally or concurrently as Beneficiary may elect.

11. In the event the indebtednesses secured hereby or this Trust Deed is placed in the hands of attorneys for collection or foreclosure, then Trustor agrees to pay reasonable attorney's fees to Beneficiary, in addition to the amount due thereon, together with all costs and expenses incurred by Beneficiary in the collection and foreclosure thereof, and together with the cost of a title search, the payment of which sums are secured by this Trust Deed.

12. In the event of any default by Trustor in the payment of the indebtedness secured hereby; or in the event of any default of Trustor in performing any of its obligations hereunder or any obligations under any loan agreement or other document executed by Trustor

and held by Beneficiary; or in the event Trustor, or any guarantor or surety shall be adjudicated insolvent or bankrupt or any proceedings are filed by or against them or any of them in the nature of bankruptcy or reorganization or arrangement with creditors; or in the event any proceeding is filed to foreclose or any Notice of Trustee's Sale is recorded on any other lien on the Trust Property (whether junior or senior to this Trust Deed); or in the event any Writ or Attachment shall be filed or levied against the Trust Property; or in the event Trustor abandons the Trust Property or leaves the same unattended or unprotected; or in the event Beneficiary shall deem the security provided by this Trust Deed inadequate or in danger of being impaired or diminished from any cause whatsoever (any of such events being an event of default hereunder); then and in any such event Beneficiary may declare the entire debt and all indebtedness of Trustor to Beneficiary to be immediately due and payable without notice to Trustor. Beneficiary may thereupon, at its option, and without prior notice and without affecting the lien of this Trust Deed, do any one or more of the following: enter upon the premises and inspect, repair, improve and maintain the same, rent or lease the premises or portions thereof as Beneficiary shall see fit, and perform such other acts thereon as Beneficiary may deem necessary or advisable; sue for all or part of the indebtedness owing from Trustor to Beneficiary without affecting or without losing the security of this Trust Deed; foreclose this Trust Deed as a mortgage in the manner provided by law; cause the exercise of the power of sale granted herein; bring an action for damages, or exercise such other remedies or combination of remedies Beneficiary may have under law and equity.

13. Upon payment in full of all sums secured hereby and performance of all obligations of Trustor hereunder, the lien of this Trust Deed upon the Trust Property shall be released by reconveyance by Deed of Release, which said reconveyance and release shall be without warranty and shall operate to reconvey the estate vested in Trustee hereby.

Beneficiary may, at any time, without notice, release any person liable for payment of any indebtedness secured hereby, release portions of the Trust Property from this Trust Deed, or extend or modify the time for payment of the indebtedness secured hereby by agreement with Trustor or by agreement with subsequent owners of said property, and any such release, extension or modification shall not affect the personal liability of any person for the payment of said indebtedness or the lien of this Trust Deed upon the remaining portion of said property.

At any time, without liability therefor and without notice, and without affecting the personal liability of Trustor of any other person for payment of the indebtedness secured hereby, Trustee may, with the consent of Beneficiary: (a) release and reconvey by Deed of Release any part of the Trust Property from the lien hereof; (b) consent to the making and recording of any maps or plats of the Trust Property; (c) join in granting any easement on the Trust Property; or (d) join in any extension agreement or any agreement subordinating or modifying the lien or charge hereof. If Trustee shall perform any such acts or execute complete or partial reconveyances it shall be paid a fee in accordance with its established fees and charges therefor.

If reconveyance by Deed of Release is to be made by Trustee, Beneficiary shall deliver the original of this Trust Deed and the note secured hereby to Trustee with a request for reconveyance by Deed of Release.

The Grantee in any Deed of Release executed pursuant to this Trust Deed may be described as "the person or persons legally entitled thereto" and the recitals therein of any matters or facts shall be conclusive proof of the truthfulness thereof.

14. In the event of default hereunder, Beneficiary, if it desires Trustee to exercise the power of sale granted hereby, shall execute and deliver to Trustee a written declaration of default and demand for sale and shall surrender to Trustee this Trust Deed, the note secured hereby and all documents evidencing any expenditures hereunder, together with such other documents as Trustee may require. Beneficiary shall also execute and deliver to Trustee all notices to Trustor that must be signed by Beneficiary. Upon receipt thereof, Trustee shall sell the Trust Property as provided by law. Trustee may postpone the sale as provided by law. After sale of the Trust Property, Trustee shall deliver its deed to the purchaser conveying the property so sold but without any covenant or warranty, express or implied. The recital in any such deed of any matters or facts, stated either specifically or in general terms, or as conclusions of law or facts, shall be conclusive proof of the truthfulness thereof.

15. Beneficiary may, at any time, request cancellation of Trustee's Notice of Sale, whereupon Trustee shall execute and record, or cause to be recorded, a Cancellation of Notice of Sale in the same county in which the Notice of Sale was recorded. The exercise by Beneficiary of this right shall not constitute a waiver of any default then existing or subsequently occurring.

In the event this Trust Deed and the indebtedness and obligations secured hereby are reinstated in the manner provided by law, Beneficiary shall forthwith notify Trustee thereof as provided by law. Upon such notification, Trustee shall record, or cause to be recorded, a Cancellation of Notice of Sale in the same county in which the Notice of Sale was recorded within the period then required by law.

16. In the event of default hereunder, at any time before the Trust Property has been sold pursuant to the power of sale granted hereby, this Trust Deed may be foreclosed in the manner provided by law for the foreclosure of mortgages on real property.

17. In the event of default hereunder, Beneficiary shall be entitled to the appointment of a Receiver to take charge of the property, collect the rents, issues and profits therefrom, care for and repair the same, improve the same when necessary or desirable, lease and rent the property or portion thereof (including leases existing beyond the term of receivership), plant, cultivate and harvest crops thereon, and otherwise use and utilize the property and to have such other duties as may be fixed by the Court.

Trustor specifically agrees that the Receiver may be appointed without any notice to Trustor whatsoever, and the Court may appoint a Receiver without reference to matters normally taken into account by Courts in the discretionary appointment of Receivers, it being the intention of Trustor to hereby authorize the appointment of a Receiver when Trustor is in default and Beneficiary has requested the appointment of a Receiver. Trustor hereby agrees and consents to the appointment of the particular person or firm (including an officer or employee of Beneficiary) designated by Beneficiary as Receiver and hereby waives its rights to suggest or nominate any person or firm as Receiver in opposition to that designated by Beneficiary.

18. Beneficiary may substitute another Trustee herein named to exercise the rights, powers and duties granted by law and contained herein. Upon such appointment, and without the necessity of a conveyance to the successor Trustee, the latter shall be vested with all the title, powers and duties conferred upon the Trustee herein named.

19. Beneficiary or any purchaser at Trustee's sale or at any foreclosure sale may, if it so elects, be subrogated to and succeed to all the rights of Trustor under any or all leases on the property or portions thereof. Beneficiary may, if it so elects, subordinate its rights hereunder to any lease on the property, or a portion thereof, and keep the lease in effect through and after any foreclosure action or Trustee's sale.

20. Beneficiary shall be subrogated to the lien, notwithstanding its release of record, of any prior mortgage, trust deed or other encumbrance paid or discharged from the proceeds of the note secured hereby, or from any advance made by Beneficiary.

21. In the event of the passage after the date of this Trust Deed of any law levying any tax upon this Trust Deed or the debt secured hereby, which Beneficiary is obliged to pay, then Trustor agrees to pay said tax or reimburse Beneficiary for the payment of the same, provided that Trustor shall not be obligated to pay any amount which would be considered as interest at a rate higher than allowed by law, and provided further that in the event of the enactment of any such law Beneficiary shall have the right, at its option, to declare the indebtedness secured hereby to be immediately due and payable.

22. Trustor agrees that in the event of a sale, assignment, encumbrance, or any other transfer of the Trust Property described herein or any portion thereof or interest therein, whether such transfer is voluntary or involuntary, or in the event Trustor contracts for the sale of said property, or any portion thereof or interest therein, then and in that event, Beneficiary may, at its option, accelerate the time for payment of all indebtedness secured hereby and demand full repayment thereof, or give its written consent to such transfer on such terms and conditions as Beneficiary may in its sole discretion require.

23. Trustee may, but shall be under no obligation or duty to, appear in or defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee. If Trustee shall take such action at the request of Beneficiary, it shall be paid therefor in accordance with its established fees and charges and shall be reimbursed for its costs and expenses actually incurred, including attorney's fees.

24. The Trust created hereby is irrevocable by Trustor. Trustee accepts this Trust Deed, duly executed and acknowledged, is made a public record as provided by law, but acceptance is not required as a condition to the validity hereof, and this Trust Deed is effective upon delivery. Trustee shall not be obligated to notify any party hereto of pending sale under any other trust deed, or any action or proceeding in which Trustor, Beneficiary or Trustee shall be a party, except as required by law.

25. The word "Trustor" and the language of this instrument shall, where there is more than one Trustor, be construed as plural and be binding equally on Trustors. The obligations of Trustors hereunder and under the note secured hereby shall be joint and several.

This Trust Deed applies to, is binding upon, and inures to the benefit of all parties hereto, their heirs, executors, administrators, successors and assigns. The term "Beneficiary" shall include not only the original Beneficiary hereunder, but also any future owner and holder of the note secured hereby.

26. If any provision hereof should be held unenforceable or invalid, in whole or in part, then such unenforceable or void provision or part shall be deemed separable from the remaining provisions hereof and shall in no way affect the validity of this Trust Deed.

27. Notwithstanding any provisions herein, or in the note, notes or other evidences of indebtedness, secured hereby, or in any related agreement between Trustor and Beneficiary, the total liability of Trustor for payments in the nature of interest shall not exceed the limits now imposed by the laws of the State of Arizona.

28. Trustor requests that a copy of any Notice of Sale hereunder be mailed to him at his mailing address set forth below. Any notices required to be given to Trustor by mailing shall be effective and complete when mailed and shall be mailed to the address set forth below. Lack of receipt thereof shall in no way invalidate the notice or any sale by Trustee hereunder. If Trustor desires to change the address to which notices shall be mailed, such change shall be accomplished by a request as provided by law.

29. Trustee shall be paid for all acts performed by it hereunder or in connection herewith in accordance with its established fees and charges. All such fees and charges shall be paid by Trustor, and if Beneficiary shall advance any such fees or charges, Trustor shall reimburse Beneficiary for same on demand. Payment thereof is secured by this Trust Deed.

IN WITNESS WHEREOF, Trustor has executed this Deed of Trust this 20th day of July, 2000.

/s/ JAMES THORBURN

James Thorburn

8635 N. 65th Street
Paradise Valley, AZ 85253

/s/ JACQUELINE THORBURN BY JAMES THORBURN
ATTORNEY IN FACT

Jacqueline Thorburn

8635 N. 65th Street
Paradise Valley, AZ 85253

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 20th day of July, 2000, by James Thorburn.

IN WITNESS HEREOF, I have hereunto set my hand and official seal.

/s/ PATTI SHAW

Notary Public

My commission expires:

August 12, 2002

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 20th day of July, 2000, by James Thorburn, as attorney in fact for Jacqueline Thorburn.

IN WITNESS HEREOF, I have hereunto set my hand and official seal.

/s/ PATTI SHAW

Notary Public

My commission expires:

August 12, 2002

EXHIBIT A

Lot 23, CAMELBACK COUNTRY ESTATES UNIT ONE, according to Book 218 of Maps, page 13, records of Maricopa County, Arizona.

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0001097864
ON SEMICONDUCTOR CORPORATION
1,000,000

9-MOS	DEC-31-2000	JAN-01-2000	SEP-30-2000
			159
		0	
		302	
		4	
		236	
		82	
		938	1560
		1955	
381			1231
0		0	
		2	
		313	
1955			1581
	1581		1030
		1370	
		96	
		0	
100			
		115	
		42	
53		0	
	(18)		0
		53	
		0.29	
		0.28	