

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

Or

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)

**Securities Registered Pursuant to Section 12(b) of the Act:
None**

**Securities Registered Pursuant to Section 12(g) of the Act:
Common stock, par value \$0.01 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained therein, and will not be contained to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was \$651,085,418 as of July 1, 2005, based on the closing sale price of such stock on the Nasdaq National Market on that date. Shares held by executive officers, directors and persons owning directly or indirectly more than 10% of the outstanding common stock have been excluded from the preceding number because such persons may be deemed to be affiliates of the registrant.

The number of shares of the registrant's common stock outstanding at February 10, 2006 was 312,027,864.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 17, 2006 are incorporated by reference into Part II and Part III hereof.

ON SEMICONDUCTOR CORPORATION
FORM 10-K
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PART I

Item 1. Business

Business Overview

ON Semiconductor Corporation and its subsidiaries (“we”) are a global supplier of power and data management semiconductors and standard semiconductor components. We design, manufacture and market an extensive portfolio of semiconductor components that addresses the design needs of sophisticated electronic systems and products. Our power management semiconductor components distribute and monitor the supply of power to the different elements within a wide variety of electronic devices. Our data management semiconductor components provide high-performance clock management and data flow management for precision computing and communications systems. Our standard semiconductor components serve as “building block” components within virtually all electronic devices.

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

We have four main product lines: power management and standard analog devices, metal oxide semiconductor (MOS) power devices, high frequency clock and data management devices and standard components. Our extensive portfolio of devices enables us to offer advanced integrated circuits and the “building block” components that deliver system level functionality and design solutions. Our product portfolio increased from approximately 26,000 products in 2004 to approximately 30,800 products in 2005, due to the introduction of additional lead-free products, and we shipped approximately 27.9 billion units in 2005. We specialize in micro packages, which offer increased performance characteristics while reducing the critical board space inside today’s ever shrinking electronic devices. We believe that our ability to offer a broad range of products provides our customers with single source purchasing on a cost-effective and timely basis.

Our reportable segments, under generally accepted accounting principles, are aligned internally as the Integrated Power Group and the Analog Products Group. In general, the power management and standard analog product line as well as the high frequency clock and data management product line are aligned under the Analog Products Group, while the MOS power devices product line and the standard components product line are aligned under the Integrated Power Group. Our discussion of customers, trends and competitive conditions can generally be aligned accordingly. Our standard logic product unit, however, whose results are included in the Analog Products Group segment, is part of our standard components product line. The standard logic product unit had revenues of approximately \$107.1 million in 2005 and \$89.7 million in 2004. In instances where the characteristics of the standard components product line are significantly impacted by the standard logic product unit, these impacts are addressed separately herein. For required disclosures regarding our reportable segments, see Note 18, “Segment Information” of the notes to our audited consolidated financial statements included elsewhere in this report.

We have approximately 203 direct customers worldwide, and we also service approximately 328 significant original equipment manufacturers indirectly through our distributor and electronic manufacturing service provider customers. Our direct and indirect customers include: (1) leading original equipment manufacturers in a broad variety of industries, such as Intel, Motorola, Nokia, Philips, Siemens and Sony; (2) electronic manufacturing service providers, such as Flextronics, Jabil and Solectron; and (3) global distributors, such as Arrow, Avnet, EBV Elektronik, Future, Solomon Enterprise and World Peace.

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

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manufacturing facility in the second quarter of 2005 and exited the facility in the fourth quarter of 2005. The Rhode Island manufacturing facility is currently being marketed for sale. In the second quarter of 2005, we announced the transfer of wafer fabrication manufacturing operations from our front end fabrication facility in Malaysia to Arizona. We plan to complete this transfer by the fourth quarter of 2006 and to maintain the fabrication facility in Malaysia for other manufacturing processes. The transfer from Malaysia to Arizona did not impact our assembly and test operations in Malaysia. We also plan to sell certain unused portions of our property at our corporate headquarters in Arizona and use some of the proceeds from the sale to upgrade portions of our corporate headquarters. We will maintain our headquarters offices and existing manufacturing facilities on the portions of the property that are not for sale.

Company History and Capital Structure

Formerly known as the Semiconductor Components Group of the Semiconductor Products Sector of Motorola, Inc., we were a wholly-owned subsidiary of Motorola prior to August 4, 1999. We continue to hold, through direct and indirect subsidiaries, substantially all the assets and operations of the Semiconductor Components Group of Motorola's Semiconductor Products Sector. On August 4, 1999, we were recapitalized (the "recapitalization") and certain related transactions were effected pursuant to an agreement among us, our principal domestic operating subsidiary, Semiconductor Components Industries, LLC, Motorola and affiliates of Texas Pacific Group ("TPG"). At the time of the recapitalization, Motorola agreed to provide us with transition and manufacturing services in order to facilitate our transition to a stand-alone company independent of Motorola. As of December 31, 2003, all transition and manufacturing services related to the recapitalization agreement had been fulfilled.

On April 3, 2000, we acquired all of the outstanding capital stock of Cherry Semiconductor Corporation for \$253.2 million in cash (including acquisition related costs), which we financed with cash on hand and borrowings of \$220.0 million under our senior bank facilities. Cherry Semiconductor Corporation, which we have renamed Semiconductor Components Industries of Rhode Island, Inc., designs and manufactures analog and mixed signal integrated circuits for the power management and automotive markets.

On May 3, 2000, we completed the initial public offering of our common stock, selling 34.5 million shares with an issue price of \$16 per share. Net proceeds from the initial public 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.

On September 7, 2001, we obtained \$100.0 million (\$99.2 million, net of issuance costs) through an equity investment by an affiliate of Texas Pacific Group, our principal shareholder. In this transaction, we issued 10,000 shares of mandatorily redeemable cumulative convertible preferred stock. This investment was required because we were not in compliance with certain minimum interest expense coverage ratio and leverage ratio covenants under our senior bank facilities. In November 2005, we entered into a Conversion and Termination Agreement with TPG to convert our redeemable convertible preferred stock into approximately 49.4 million shares of our common stock. To induce the conversion, we issued approximately 3.9 million additional shares of our common stock to TPG. Following the conversion, none of the authorized shares of our preferred stock remained outstanding. (See Note 9 "Redeemable Preferred Stock" of the notes to our audited consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case included elsewhere in this report).

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Debt Refinancings and Cost Savings Initiatives

Since our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. Since the second half of 2003 we have engaged in several debt refinancing transactions, which extended a portion of our debt maturities. Some of the transactions that extended our debt maturities also resulted in an increase in our overall interest expense and others lowered our overall interest expense. In connection with these transactions, we amended our senior bank facilities to, among other things, make our financial covenants less restrictive on the whole.

Since 2003, we began undertaking measures to reduce our long-term debt and related interest costs. We reduced both our total debt and interest expense as a result of our public offerings of common stock in September 2003 and February 2004, a portion of the proceeds from which we applied to prepay and redeem a portion of our outstanding debt prior to scheduled maturity. We also lowered our interest expense further as a result of the issuance of our zero coupon convertible senior subordinated notes in 2004, 1.875% convertible senior subordinated notes in 2005 and the refinancing of our senior bank facilities in 2004 and 2005, the proceeds from which were used to repay higher interest notes.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 7 “Long-Term Debt” and Note 10 “Common Stock” of the notes to our audited consolidated financial statements included elsewhere in this report for further details on these financing activities.

Since the fourth quarter of 2000, we have been implementing profitability enhancement programs to improve our cost structure and, as a result, we expect to rank, as compared to our primary competitors, among the lowest in terms of cost structure.

Our 2004 profitability enhancement program included the phase out of our manufacturing operations in East Greenwich, Rhode Island, which was announced in December 2003, and our assembly and test operations in the Czech Republic, which was announced in November 2003. We began to realize savings from this program during the fourth quarter of 2004, with the full benefit beginning to be realized by the end of the fourth quarter of 2005. Despite delays of approximately two quarters due to increased demand for bridge inventory, the closure of our operations in East Greenwich was completed in the third quarter of 2005 with all manufacturing equipment decommissioned and removed. During the fourth quarter of 2005, we successfully completed the work related to the decommissioning of the manufacturing building, which is currently being marketed for sale. We expect to incur marginal operating expenses in 2006 to maintain the building until the sale is completed. Overall, we expect the full cost savings from these activities will produce at least \$20 million to \$25 million of annual cost savings beginning in the first quarter of 2006.

In the first quarter of 2004, we entered into a five-year agreement with respect to the outsourcing of information technology infrastructure. As part of the agreement, we sold certain system software modules, resulting in a loss on disposal of assets of \$12.0 million. As a result of these actions, starting in the second quarter of 2004, we began to realize approximately \$1.0 million per quarter of cost savings.

In the second quarter of 2004, we evaluated our operations in the Czech Republic and determined certain overhead functions were no longer necessary as a result of our previously announced transfer of our back-end manufacturing lines in Roznov to Malaysia and the Philippines. Following the reduction of such overhead functions, we realized approximately \$7.7 million of actual cost savings in 2005.

In the second quarter of 2005, we announced our plan to transfer wafer fabrication operations from our facility in Malaysia to our facility in Arizona by the end of 2006, which will eliminate approximately 80 jobs. As a result of this action, we expect to realize costs savings of approximately \$25.0 million to \$30.0 million over the next five years, beginning in the third quarter of 2006. Savings during 2006 are expected to be insignificant due to transition and other costs; however, savings during 2007 are expected to be approximately \$7 million.

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

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

Return to Profitability

In the third quarter of 2004 we returned to profitability after 14 consecutive quarters of net losses. We were also profitable during all four quarters of 2005. Our net income for the year ended December 31, 2005 was \$100.6 million, and was the highest annual net income since we began as a company after the recapitalization in 1999. This return to profitability was the result of increased demand for our products and cost savings from profitability enhancement programs and restructuring programs, as well as debt refinancing opportunities that have reduced our interest costs.

Products and Technology

The following table provides information regarding our primary product lines:

	Power Management and Standard Analog	MOS Power Devices	High Frequency Clock and Data Management	Standard Components (1)
Revenues				
2005	\$373.2 million	\$223.2 million	\$80.3 million	\$583.9 million
2004	\$381.3 million	\$235.0 million	\$90.4 million	\$560.2 million
2003	\$333.4 million	\$152.5 million	\$80.5 million	\$502.7 million
Primary product function	Power control and regulation in portable and high-power applications.	Power conditioning and switching in a broad range of applications.	Interfacing and synchronizing functions, such as interconnecting and routing (moving) electronic signals within electronic systems.	Power control, interface and data protection in a broad range of products.
Sample applications	Intelligent power management and battery protection in portable applications, desktop computers and automotive electronics.	Power management for computers, automobiles, servers and battery protection in portable applications.	Fast routing of signals used in communication and networking switches, high-end servers, high-performance workstations, storage networks and precision measurement test systems.	Power management and interface elements for computer, consumer and portable equipment and automotive control systems.
Types of product	Amplifiers, comparators, voltage regulators and references, AC-DC /DC-DC converters.	Ignition insulated gate bipolar transistors (IGBT's), power MOS field effect transistors (MOSFET's).	Clock distribution, drivers/receivers, multiplexers, phase detectors, prescalers.	MicroIntegration™, MiniGate™ logic, small signal transistors, zeners, rectifiers, standard logic integrated circuits, bipolar power transistors, small signal diodes and thyristors.

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	Power Management and Standard Analog	MOS Power Devices	High Frequency Clock and Data Management	Standard Components (1)
Representative original equipment manufacturers customers and end users	Delphi Delta Intel Motorola Nokia Seagate Siemens Sony-Ericsson Vestel Visteon	Asustek Delphi Intel Microsoft Microstar Motorola Seagate Siemens Sony-Ericsson Visteon	Advantest Agilent Cisco Systems Hewlett-Packard Hitachi Motorola Nortel Networks Siemens Teradyne Yokogawa	Delphi Delta Hewlett-Packard Intel LG Motorola Samsung Siemens Sony Visteon

(1) Revenues for the standard components product line includes \$107.1 million, \$89.7 million and \$79.9 million of revenues from the standard logic product unit for the years 2005, 2004 and 2003, respectively.

Power Management and Standard Analog. One of the fastest growing sectors within the analog market is power management. We are a global supplier of power management analog products. We have a complete power management portfolio in the six major product categories, which include DC/DC converters, AC/DC converters, linear regulators, pulse width modulation (PWM)/power factor modulation (PFM) controllers, power factor controller (PFC) pre-regulators and battery charging/management integrated circuits. Our products are engineered and manufactured to meet the power management needs of high-performance applications in the wireless, automotive and computing markets. Specifically in the computing market, we design controllers that meet the power requirements for today's advanced microprocessors.

MOS Power Devices. We are a global supplier of power devices and ignition insulated gate bipolar transistors (IGBT's). We have a complete power management portfolio of devices ranging from 8V up to 400V. Our products are engineered and manufactured to meet the power management needs of high-performance applications in the wireless, automotive and computing markets. We are advancing our portfolio to include multi function integrated circuits (IC's) and multi chip modules for the automotive and computing markets.

High Frequency Clock and Data Management. Our high frequency clock and data management products consist primarily of high margin emitter-coupled logic products. We are the market leader in this area with a market share in excess of 75%. We design and deliver application-specific integrated circuits using advanced technologies that address the high-performance needs of networking infrastructure, advanced test equipment and high end computing. Our extensive clock and data management portfolio, led by our GigaComm family, is designed into state-of-the-art systems such as communication and networking switches, high-end servers, high-performance work stations, storage networks and precision measurement test systems. We enable application specific designs for today's advanced networks, including Asynchronous Transfer Mode (ATM), Enterprise Networks, Storage Area Networks (SAN) and Internet Protocol (IP) applications.

Standard Components. We are a global supplier of standard semiconductors. We have special competencies in manufacturing surface mount packages. Our broad product line includes MicroIntegration™, MiniGate™ logic, small signal transistors and diodes, zeners, rectifiers, standard logic integrated circuits, bipolar power transistors and thyristors. Standard components are essential in substantially all modern pieces of electronic equipment, including computers, printers, wireless communication devices, DVD and MP3 players, video game consoles and automotive navigation systems.

Customers

We have been doing business with 46 of our 50 largest customers for more than five years. Sales agreements with customers are renewable periodically and contain certain terms and conditions with respect to payment, delivery, warranty and supply but do not require minimum purchase commitments. Most of our original equipment manufacturer customers negotiate pricing terms with us on an annual basis near the end of the

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calendar year while our other customers, including electronic manufacturer service providers, generally negotiate pricing terms with us on a quarterly basis. Our products are ultimately purchased for use in a variety of end markets: computing, automotive electronics, consumer electronics, industrial electronics, wireless communications and networking. Sales to our largest customers, Arrow, Avnet and Motorola, accounted for approximately 9%, 13% and 10%, respectively, of our revenue during 2005, as compared to 9%, 12% and 8% during 2004 and 9%, 13% and 7% in 2003.

We generally warrant that products sold to our customers will, at the time of shipment, be free from defects in workmanship and materials and conform to our approved specifications. Subject to certain exceptions, our standard warranty extends for a period that is the greater of (1) three years from the date of shipment or (2) the period of time specified in the customer's standard warranty (provided that the customer's standard warranty is stated in writing and extended to purchasers at no additional charge). Generally, our customers may cancel orders 30 days prior to shipment without incurring a significant penalty. For additional information regarding agreements with our customers, see "Backlog" below.

The following table sets forth our principal end-user markets, the estimated percentage (based in part on information provided by our distributors and electronic manufacturing service providers) of our revenues generated from each end-user market during 2005, sample applications for our products and representative original equipment manufacturer customers and end users.

End Markets for Our Products

	Computing	Consumer Electronics	Automotive Electronics	Industrial Electronics	Wireless Communications	Networking
Approximate percentage of our revenues 2005 revenues	23%	20%	19%	14%	17%	7%
Sample applications	<ul style="list-style-type: none"> • Computer monitors • Disk drives • PC motherboards • Notebook power supplies 	<ul style="list-style-type: none"> • DVD players, cable decoders, set-top boxes and satellite receivers • Home security systems • Photocopiers • Scanners • Small household appliances • Smartcards • TVs, VCRs and other audio-visual equipment • Power supplies for consumer electronics 	<ul style="list-style-type: none"> • 4 wheel drive controllers • Airbags • Antilock braking systems • Automatic door locks and windows • Automatic transmissions • Automotive entertainment systems • Engine management and ignition systems • Fuel injection systems • GPS and other navigation systems • LIN/CAN multiplexing 	<ul style="list-style-type: none"> • Industrial automation and control systems • Lamp ballasts (power systems for fluorescent lights) • Large household appliances • Electric motor controllers • Power supplies for manufacturing equipment • Surge protectors • Thermostats for industrial and consumer applications • Automatic test equipment 	<ul style="list-style-type: none"> • Cellular phones (analog and digital) • Pagers • Wireless modems and wireless local area networks 	<ul style="list-style-type: none"> • Routers and switches • Fiber optic networking • Cellular base stations and infrastructure • Ethernet cards and other network controllers • High speed modems (cable, xDSL and ISDN) • PBX telephone systems • Network controllers

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	Computing	Consumer Electronics	Automotive Electronics	Industrial Electronics	Wireless Communications	Networking
Representative original equipment manufacturer customers and end users	ACER Apple Asustek Dell Delta Hewlett-Packard Intel Microsoft NEC Seagate	Beko Echostar Haier Motorola Philips Samsung Scientific Atlanta Sony Thompson Vestel	Bosch Cont'l / Temic DaimlerChrysler Delphi Hyundai Motorola Siemens VDO TRW Visteon	Advantest Artesyn Delta Honeywell Siecor Siemens Teradyne Tyco Yokogawa	GVC LG Motorola Nokia Sagem Samsung Sony-Ericsson TCL Comm. V-Tech Zhongxing	Alcatel Askey Cisco ECI Telecom Ericsson Fujitsu Hitachi Huawei Nortel Siemens

Original Equipment Manufacturers. Direct sales to original equipment manufacturers accounted for approximately 41% of our revenues in 2005, 42% in 2004 and 42% in 2003. These customers include a variety of companies in the electronics industry such as Intel, Motorola, Nokia, Philips, Siemens and Sony, and in the automotive industry such as DaimlerChrysler, Delphi, TRW and Visteon. We focus on three types of original equipment manufacturers: multi-nationals, selected regional accounts and target market customers. Large multi-nationals and selected regional accounts, which are significant in specific markets, are our core original equipment manufacturer customers. The target market customers in the communications, power management and standard analog and the high frequency clock and data management markets are original equipment manufacturers that are on the leading edge of specific technologies and provide direction for technology and new product development. Generally, our original equipment manufacturer customers do not have the right to return our products other than pursuant to the provisions of our standard warranty.

Distributors. Sales to distributors accounted for approximately 48% of our revenues in 2005, 47% in 2004, and approximately 47% in 2003. Our distributors, which include Arrow, Avnet, EBV Elektronik, Future, Solomon Enterprise and World Peace resell to mid-sized and smaller original equipment manufacturers and to electronic manufacturing service providers and other companies. Sales to distributors are typically made pursuant to agreements that provide return rights with respect to discontinued or slow-moving products. Under certain agreements, distributors are allowed to return any product that we have removed from our price book or that is more than four years older than the manufacturing code date. In addition, agreements with our distributors typically contain standard stock rotation provisions permitting limited levels of product returns. However, since we defer recognition of revenue and gross profit on sales to distributors until the distributor resells the product, sales returns have minimal impact on our results of operations.

Electronic Manufacturing Service Providers. Direct sales to electronic manufacturing service providers accounted for approximately 11% of our revenues in each of 2005, 2004 and 2003. Our largest electronic manufacturing service customers are Flextronics, Jabil and Sollectron. These customers are manufacturers who typically provide contract manufacturing services for original equipment manufacturers. Originally, these companies were involved primarily in the assembly of printed circuit boards, but they now typically provide design, supply management and manufacturing solutions as well. Many original equipment manufacturers now outsource a large part of their manufacturing to electronic manufacturing service providers in order to focus on their core competencies. We are pursuing a number of strategies to penetrate this increasingly important marketplace.

Manufacturing Operations

We operate our manufacturing facilities either directly or through a joint venture. Five of these are front-end wafer sites located in Japan, Slovakia, the Czech Republic, Malaysia and the United States; three are assembly and test sites located in China, Malaysia and the Philippines. In addition to these manufacturing and assembly operations, our facility in Roznov, Czech Republic manufactures silicon wafers that are used by a number of our facilities.

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During 2001, we decided to shut down our integrated facility in Guadalajara, Mexico and transfer the front-end and assembly and test operations to other owned and contracted locations. Accordingly, the Guadalajara, Mexico facility ceased operations in the second quarter of 2002 and was sold in the third quarter of 2003. In November 2003, we announced our decision to discontinue our assembly and test operations at our site in Roznov, Czech Republic and move these operations to our facility in Seremban, Malaysia and to contract manufacturers. The transfer of assembly and test operations from our site in Roznov, Czech Republic was completed in 2004. In December 2003, we announced our decision to phase out manufacturing operations at our facility in East Greenwich, Rhode Island. This closure was completed in the fourth quarter of 2005. We transferred all of the production from this facility to our lower cost manufacturing facilities. The East Greenwich, Rhode Island facility is currently on the market for sale.

During 2005, we announced a plan to close our front-end wafer manufacturing operations in Seremban, Malaysia (Site-2) and transfer production to our larger manufacturing facility in Phoenix, Arizona. Our plan is to complete this transfer by the end of 2006. We plan to use the vacated manufacturing space in Seremban, Malaysia (Site-2) for future expansion of our assembly and test manufacturing, in conjunction with our other manufacturing facility in Seremban, Malaysia (Site-1). Also in 2005, we announced plans to sell unused portions of the Phoenix, Arizona location.

The table below sets forth information with respect to the manufacturing facilities we operate either directly or through our joint venture, as well as the products produced at these facilities. The sizes of the locations represent the approximate gross square feet of each site's building and include, among other things, manufacturing, laboratory, warehousing, office, utility, support and unused areas.

<u>Location</u>	<u>Products</u>	<u>Size (sq. ft.)</u>
Front-end Facilities:		
Phoenix, Arizona	MOS Power Devices, High Frequency Clock and Data Management, and Standard Components	1,523,000
Aizu, Japan	MOS Power Devices, Power Management and Standard Analog, and Standard Components	282,000
Piestany, Slovakia	Standard Components, MOS Power Devices, and Power Management and Standard Analog	906,000
Seremban, Malaysia (Site-2)	Standard Components	115,000
Roznov, Czech Republic	Power Management and Standard Analog	441,000
Back-end Facilities:		
Leshan, China	Standard Components	372,000
Seremban, Malaysia (Site-1)	MOS Power Devices, Power Management and Standard Analog, and Standard Components	291,000
Carmona, Philippines	High Frequency Clock and Data Management, Power Management and Standard Analog, and Standard Components	204,000
Other Facilities:		
Roznov, Czech Republic	Silicon wafers	200,000

We operate an assembly and test operations facility in Leshan, China. We own this facility through a joint venture company, Leshan-Phoenix Semiconductor Company Limited ("Leshan"), of which we owned a majority

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of the outstanding equity interests as of December 31, 2005. Our investment in Leshan has been consolidated in our financial statements. Our joint venture partner, Leshan Radio Company Ltd., is a formerly state-owned enterprise. Pursuant to the joint venture agreement, requests for production capacity are made to the board of directors of Leshan by each shareholder of the joint venture. Each request represents a purchase commitment by the requesting shareholder, provided that the shareholder may elect to pay the cost associated with the unused capacity (which is generally equal to the fixed cost of the capacity) in lieu of satisfying the commitment. We committed to purchase 85%, 86% and 82% of Leshan's production capacity in 2005, 2004 and 2003, respectively, and are currently committed to purchase approximately 85% of Leshan's expected production capacity in 2006. In 2005, 2004 and 2003, we incurred \$0.2 million, \$0.5 million and \$0.5 million in underutilization charges, respectively. As part of our manufacturing agreements with Leshan, we supply die used in the production process.

The Leshan facility is one of our lowest cost manufacturing operations, and we anticipate that any future expansion of our manufacturing capacity would involve this facility. In June 2002, we obtained approval from the Chinese government for the Leshan joint venture to invest up to \$231 million in semiconductor operations, which is in addition to the \$278 million originally approved. In 2004, we committed to make capital contributions of approximately \$25 million to this joint venture by 2012, subject to market conditions. We have the ability to time these expenditures at our discretion to meet market demand.

We also use third-party contractors for some of our manufacturing activities, primarily for wafer fabrication and the assembly and testing of finished goods. Our agreements with these contract manufacturers typically require us to forecast product needs and commit to purchase services consistent with these forecasts. In some cases, longer-term commitments are required in the early stages of the relationship. These contract manufacturers, including AIT, ASE, KEC, MagnaChip, Phenitec and PSI, accounted for approximately 25%, 28% and 26% of our manufacturing costs in 2005, 2004 and 2003, respectively.

We entered into an agreement with Motorola to continue to provide manufacturing services to each other for limited periods following our 1999 recapitalization. We negotiated fixed prices with Motorola for the services covered by these agreements to approximate each party's cost of providing the services. For 2003, Motorola purchased \$3.4 million of manufacturing services from us with no minimum purchase commitments going forward at this time. These purchases are classified as revenues in our financial statements. We purchased \$8.9 million of manufacturing services from Motorola in 2003, fulfilling our minimum commitments to purchase manufacturing services from Motorola during such periods. We currently have no minimum commitments to purchase manufacturing services from Motorola related to the recapitalization agreement mentioned above.

Raw Materials

Our manufacturing processes use many raw materials, including silicon wafers, copper lead frames, mold compound, ceramic packages and various chemicals and gases. We obtain our raw materials and supplies from a large number of sources on a just-in-time basis, and material agreements with our suppliers that impose minimum or continuing supply obligations are reflected in our table showing commitments, contingencies and indemnities in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" below. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Although we believe that supplies of the raw materials we use are currently and will continue to be available, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry.

Sales, Marketing and Distribution

As of December 31, 2005, our global sales and marketing organization consisted of approximately 510 professionals operating out of approximately 41 offices and serving customers in 51 countries. We support our customers through logistics organizations and just-in-time warehouses. Global and regional distribution channels further support our customers' needs for quick response and service. We offer efficient, cost-effective

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internet-based applications support from our laboratories in the Czech Republic, China and the United States. Through on-line connectivity, applications developed in one region of the world are now instantaneously available to all other regions. In 2004 we improved our cost structure related to freight, shipping and logistical services by opening new global distribution centers in the Philippines and Shanghai, China and improved domestic shipping and customs clearance operations, and as a result we achieved approximately \$9.0 million of cost savings related to our freight and logistical support operations compared to 2003. We continue to monitor our freight and logistical support operations for potential cost savings.

Patents, Trademarks, Copyrights and Other Intellectual Property Rights

We market our products under our registered trademark ON Semiconductor[®] and our ON logo. We own rights to a number of patents, trademarks, copyrights, trade secrets and other intellectual property directly related to and important to our business. In connection with our 1999 recapitalization, Motorola assigned, licensed or sublicensed, as the case may be, to us certain intellectual property to support and continue the operation of our business. As of January 24, 2006 we had approximately 547 U.S. and foreign patents and approximately 365 patent applications pending worldwide. Our patents have expiration dates ranging from 2006 to 2024. None of our patents that expire in the near future materially affect our business. Additionally, we have rights to more than 270 registered and common law trademarks. Our policy is to protect our products and processes by asserting our intellectual property rights where appropriate and prudent and by obtaining patents, copyrights and other intellectual property rights used in connection with our business when practicable and appropriate.

As part of the recapitalization, Motorola assigned to us approximately 295 U.S. patents and patent applications, approximately 292 foreign patents and patent applications, rights to over 50 trademarks (not including the Motorola name) previously used in connection with our products, rights in know-how relating to at least 39 semiconductor fabrication processes and rights in specified copyrightable materials. In addition, Motorola licensed on a nonexclusive, royalty-free basis other patent, trademark, copyright and know-how rights used in connection with our then existing products and products contemplated in our long-range plans. We have perpetual, royalty-free, worldwide rights under Motorola's patent portfolio and other intellectual property, existing as of the date of our recapitalization or created in the five years thereafter (the five-year period existing only with respect to patents), as necessary to manufacture, market and sell our then existing and long range plan product lines. Additionally, Motorola provided us with a limited indemnity umbrella to protect us from certain infringement claims by third parties who had granted Motorola licenses as of the date of our recapitalization, which assisted us in developing our own patent position and licensing program. We believe that we have the right to use all Motorola-owned technology used in connection with the products we currently offer.

Seasonality

Historically, our revenues have been affected by the seasonal trends of the semiconductor and related industries. As a result of these trends, we have typically experienced sales increases in the first two quarters of the year and relatively flat sales levels in the third and fourth quarters. However, beginning in 2001, various events have disrupted this pattern. In 2001, revenues declined due to slowing demand in the semiconductor market and the general economic decline. In 2002 and 2003, revenues fluctuated within a narrow range and in 2004 revenues increased in the first and second quarter, but declined in the last two quarters. In 2005, revenues were relatively flat in the first and second quarter and increased in the last two quarters. At this time, it is unclear when the semiconductor industry is going to return to the seasonal trends that existed prior to 2001.

Backlog

Our trade sales are made primarily pursuant to standard purchase orders or customer agreements that are booked as far as 26 weeks in advance of delivery. Generally, prices and quantities are fixed at the time of booking. Backlog as of a given date consists of existing orders and forecasted demands from our Electronic Data Interface customers, in each case scheduled to be shipped over the 13-week period following such date. Backlog is influenced by several factors including market demand, pricing and customer order patterns in reaction to

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product lead times. Because we record revenues on a “sell-through” basis, backlog comprised of orders from distributors will not result in revenues until the distributors sell the products ordered. During 2005, our backlog at the beginning of each quarter represented between 79% and 83% of actual revenues during such quarter. As manufacturing capacity utilization in the industry increases, customers tend to order products further in advance and, as a result, backlog at the beginning of a period as a percentage of revenues during such period is likely to increase.

In the semiconductor industry, backlog quantities and shipment schedules under outstanding purchase orders are frequently revised to reflect changes in customer needs. Agreements calling for the sale of specific quantities are either contractually subject to quantity revisions or, as a matter of industry practice, are often not enforced. Therefore, a significant portion of our order backlog may be cancelable. For these reasons, the amount of backlog as of any particular date may not be an accurate indicator of future results.

We sell products to key customers pursuant to contracts that allow us to schedule production capacity in advance and allow the customers to manage their inventory levels consistent with just-in-time principles while shortening the cycle times required to produce ordered products. However, these contracts are typically amended to reflect changes in customer demands and periodic price renegotiations.

Competition

The semiconductor industry, particularly the market for general-purpose semiconductor products like ours, is highly competitive. Although only a few companies compete with us in all of our product lines, we face significant competition within each of our product lines from major international semiconductor companies, as well as smaller companies focused on specific market niches. Because our components are often building block semiconductors that in some cases can be integrated into more complex integrated circuits, we also face competition from manufacturers of integrated circuits, application-specific integrated circuits and fully customized integrated circuits, as well as customers who develop their own integrated circuit products. (See “Risk Factors — Trends, Risks and Uncertainties Related to our Business — Competition in our industry could prevent us from maintaining our revenues and from raising prices to offset increases in costs” elsewhere in this report.)

We compete with respect to power management and standard analog products, standard components, MOS power devices and high frequency clock and data management products in the following manner:

Power Management and Standard Analog product line

The principal methods of competition in this product line are new product innovation, technical performance, quality, service and price. Our competitive strengths in this product line are our strong technology and design resources, our industry recognition in applications, such as automotive and computing, and our market share in this product line. Our significant competitors in this market include Fairchild, Linear Technology, Maxim, National Semiconductor, ST Microelectronics and Texas Instruments. Several of these competitors are larger in scale and size, have substantially greater financial and other resources with which to pursue development, engineering, manufacturing, marketing and distribution of their products and are better able to withstand adverse economic or market conditions. A competitive challenge in this product line is our small market share with certain Japanese customers that tend to favor local suppliers for their new product designs. If we are not identified as a vendor in the product design phase, in most cases it is difficult to convince the manufacturer of the product to substitute our components during the production phase.

Standard Components product line

The principal methods of competition in this product line are price, technical performance, quality and service. Our competitive strengths in this product line are the breadth of our portfolio, our low cost manufacturing capability, our global market presence and our ability to service broad application market

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segments. The strong acceptance of ON's MicroIntegration™ capability (with ability to integrate both active and passive components in multi-chip or monolithic approaches) into various applications in our existing markets is an additional competitive strength in this product line. Our significant competitors in this market include Fairchild, Infineon, Philips, Renesas, Rohm, ST Microelectronics, Toshiba and Vishay. Several of these competitors are larger in scale and size, have substantially greater financial and other resources with which to pursue development, engineering, manufacturing, marketing and distribution of their products and are better able to withstand adverse economic or market conditions. If we are not identified as a vendor in the product design phase, in most cases it is difficult to convince the manufacturer of the product to substitute our components during the production phase.

MOS Power Devices product line

The principal methods of competition in this product line are new product innovation, technical performance, price, quality and service. Our competitive strengths in this product line are our strong presence in areas such as IGBT's and low voltage planar technology, our broad product offering and our state-of-the-art trench technology. Our significant competitors in this market include Fairchild, Infineon, International Rectifier, Philips, ST Microelectronics and Vishay. Several of these competitors are larger in scale and size, have substantially greater financial and other resources with which to pursue development, engineering, manufacturing, marketing and distribution of their products and are better able to withstand adverse economic or market conditions. If we are not identified as a vendor in the product design phase, in most cases it is difficult to convince the manufacturer of the product to substitute our components during the production phase.

High Frequency Clock and Data Management product line

The principal methods of competition in this product line are new product innovation, technical performance, quality, service and price. Our competitive strengths in this product line are our use of specialized high speed materials like silicon germanium and the volume benefits which come from being one of the largest suppliers in this market. Our significant competitors in this market include Fairchild, Maxim, Micrel, Motorola and Semtech. Although we have a significant share in this market, the total potential revenue has been reduced commensurate with the downturn in the networking, telecommunications and automated test equipment market segments, which currently drive the applications for this product.

Research and Development

Company-sponsored research and development costs in 2005, 2004 and 2003 were \$93.7 million (7.4% of revenue), \$94.4 million (7.5% of revenues) and \$85.5 million (8.0% of revenues), respectively. Our new product development efforts continue to be focused on building solutions in power management that appeal to customers in focused market segments and across multiple high growth applications. It is our practice to regularly re-evaluate our research and development spending, to assess the deployment of resources and to review the funding of high growth technologies regularly. We deploy people and capital with the goal to maximize our investment in research and development and to position us for continued growth. As such, we often invest opportunistically to refresh existing products in our commodity analog, standard component, MOS power and clock and data management products. We invest in these initiatives when we believe there is a strong customer demand or opportunities to innovate our current portfolio in high growth markets and applications.

Government Regulation

Our manufacturing operations are subject to environmental and worker health and safety laws and regulations. These laws and regulations include those relating to emissions and discharges into the air and water; the management and disposal of hazardous substances; the release of hazardous substances into the environment at or from our facilities and at other sites; and the investigation and remediation of resulting contamination.

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Our manufacturing facility in Phoenix, Arizona is located on property that is a “Superfund” site, a property listed on the National Priorities List and subject to clean-up activities under the Comprehensive Environmental Response, Compensation, and Liability Act. Motorola is actively involved in the cleanup of on-site solvent contaminated soil and groundwater and off-site contaminated groundwater pursuant to consent decrees with the State of Arizona. As part of our 1999 recapitalization, Motorola has retained responsibility for this contamination and has agreed to indemnify us with respect to remediation costs and other costs or liabilities related to this matter.

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

Our manufacturing facility in East Greenwich, Rhode Island has adjoining property that has localized soil contamination. In connection with the purchase of the facility, we entered into a Settlement Agreement and Covenant Not To Sue with the State of Rhode Island. This agreement requires that remedial actions be undertaken and a quarterly groundwater monitoring program be initiated by the former owners of the property. Based on the information available, we do not believe that any costs to us in connection with this matter will be material.

We believe that our operations are in material compliance with applicable environmental and health and safety laws and regulations. We do not expect the cost of compliance with existing environmental and health and safety laws and regulations, and liability for currently known environmental conditions, to have a material adverse effect on our business or prospects. It is possible, however, that future developments, including changes in laws and regulations, government policies, customer specification, personnel and physical property conditions, including currently undiscovered contamination, could lead to material costs.

Employees

As of December 31, 2005, we had approximately 10,539 employees worldwide. We do not currently have any collective bargaining arrangements with our employees, except for those arrangements, such as works councils, that are obligatory for all employees or all employers in a particular industry under applicable foreign law. Of the total number of our employees as of December 31, 2005, approximately 9,201 were engaged in manufacturing and information services, approximately 510 were engaged in our sales and marketing organization which includes customer service, approximately 306 were engaged in administration and approximately 522 were engaged in research and development.

Executive Officers of the Registrant

See Part III, Item 10 “Directors and Executive Officers of the Registrant” of this report for information concerning executive officers.

Geographical Information

For certain geographic operating information, see Note 18, “Segment Information” of the notes to our audited consolidated financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations, in each case, as included elsewhere in this report. For information regarding the risks associated with our foreign operations, see “Risk Factors — Trends, Risks and Uncertainties Related to our Business — Our international operations subject us to risks inherent in doing business on an international level that could adversely impact our results of operations” elsewhere in this report.

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Available Information

We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports available, free of charge, in the “Investor Relations” section of our Internet website at <http://www.onsemi.com> as soon as reasonably practicable after we electronically file this material with, or furnish this material to, the Securities and Exchange Commission (the SEC).

You may also read or copy any materials that we file with the SEC at their Public Reference Room at 100 F. Street, NE, Washington, DC 20549. You may obtain additional information about the Public Reference Room by calling the SEC at 1-800-SEC-0330. Additionally, you will find these materials on the SEC Internet site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors

Trends, Risks and Uncertainties

Overview

This Annual Report on Form 10-K includes “forward-looking statements,” as that term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or incorporated in this Form 10-K are forward-looking statements, particularly statements about our plans, strategies and prospects under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” Forward-looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “will,” “intends,” “plans,” or “anticipates,” or by discussions of strategy, plans or intentions. All forward-looking statements in this Form 10-K are made based on our current expectations and estimates, which involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in forward-looking statements. Among these factors are, as discussed more below, our revenues and operating performance, changes in overall economic conditions, the cyclical nature of the semiconductor industry, changes in demand for our products, changes in inventories at our customers and distributors, technological and product development risks, availability of raw materials, competitors’ actions, pricing and gross profit pressures, loss of key customers, order cancellations or reduced bookings, changes in manufacturing yields, control of costs and expenses, significant litigation, risks associated with acquisitions and dispositions, risks associated with our substantial leverage and restrictive covenants in our debt agreements, risks associated with our international operations, the threat or occurrence of international armed conflict and terrorist activities both in the United States and internationally, risks and costs associated with increased and new regulation of corporate governance and disclosure standards (including pursuant to Section 404 of the Sarbanes-Oxley Act of 2002), and risks involving environmental or other governmental regulation. Additional factors that could affect our future results or events are described from time to time in our Securities and Exchange Commission reports. See in particular the description of trends, risks and uncertainties that is set forth below and similar disclosures in subsequently filed reports. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information.

You should carefully consider the trends, risks and uncertainties described below and other information in this Form 10-K and subsequent reports filed with or furnished to the Securities and Exchange Commission before making any investment decision with respect to our securities. If any of the following trends, risks or uncertainties actually occurs or continues, our business, financial condition or operating results could be materially adversely affected, the trading prices of our securities could decline, and you could lose all or part of your investment. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Trends, Risks and Uncertainties Related to Our Business

We have experienced declines in revenues and operating losses, and we may experience additional declines in revenues and operating losses in the future.

Our historical financial results have been, and our future financial results are anticipated to be, subject to substantial fluctuations. Our revenues for 2005 were \$1,260.6 million, compared to \$1,266.9 million for 2004 and \$1,069.1 million for 2003. We reported net income of \$100.6 million in 2005 and incurred net losses of \$123.7 million in 2004 and \$166.7 million in 2003. Reduced end-user demand, price declines, excess inventory, underutilization of our manufacturing capacity and other factors could adversely affect our business, and we may experience declines in revenue and operating losses in the future. In order to remain profitable, we must continue to successfully implement our business plan, including our cost reduction initiatives. However, we also currently face an environment of uncertain demand and pricing pressure in the markets our products address. We cannot assure you that we will be able to sustain our recent profitability.

We operate in the highly cyclical semiconductor industry, which is subject to significant downturns.

The semiconductor industry is highly cyclical. The industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles (for semiconductors and for the end-user products in which they are used) and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. We have experienced these conditions in our business in the past and may experience such downturns in the future. The most recent downturn, which began in the fourth quarter of 2000, was severe and prolonged, and it is uncertain whether recent improvements in semiconductor industry performance will continue or whether such improvements will benefit us to the same extent as they benefit other industry participants. Future downturns in the semiconductor industry may also be severe and prolonged. Future downturns in the semiconductor industry, or any failure of the industry to fully recover from its recent downturn, could seriously impact our revenues and harm our business, financial condition and results of operations.

During the 1990s and continuing into 2000, the semiconductor industry enjoyed unprecedented growth, benefiting from the rapid expansion of the internet and other computing and communications technologies. During 2001, we — like many of our customers and competitors — were adversely affected by a general economic slowdown and an abrupt decline in demand for many of the end-user products that incorporate our integrated circuits and standard semiconductors. The terrorist attacks of September 11, 2001 also further depressed economic activity and demand for end-user products. The impact of slowing end-customer demand was compounded by higher than normal levels of equipment and component inventories among our original equipment manufacturer, subcontractor and distributor customers, resulting in increasing pricing pressure. We expect that factors including, but not limited to, economic uncertainty and downturns relating to the threat or actual occurrence of armed international conflict or terrorist attacks, reduced demand for end-user products, underutilization of our manufacturing capacity and changes in our revenue mix could adversely impact our operating results in the near term.

Our gross profit is dependent on a number of factors, including our level of capacity utilization.

Semiconductor manufacturing requires significant capital investment, leading to high fixed costs, including depreciation expense. If we are unable to utilize our manufacturing and testing facilities at a high level, the fixed costs associated with these facilities will not be fully absorbed, resulting in higher average unit costs and lower gross profits. As a percentage of revenues, gross profit was 33.2% for 2005, compared to 32.4% for 2004 and 28.1% for 2003. Gross profit improved in 2004 and 2005, in each case as a result of increased sales volume and cost savings from our profitability enhancement programs. Increased competition and other factors may lead to further price erosion, lower revenues and lower margins for us in the future.

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The failure to implement, as well as the completion and impact of, our profitability enhancement programs and cost reductions could adversely affect our business.

Between 2000 and the end of 2005, we implemented a number of cost reduction initiatives in response to the significant downturn in our industry. These initiatives have included accelerating our manufacturing moves into lower cost regions, transitioning higher-cost external supply to internal manufacturing, working with our material suppliers to further lower costs, personnel reductions, reductions in employee compensation, temporary shutdowns of facilities with mandatory vacation and aggressively streamlining our overhead. However, we cannot assure you that these cost reduction initiatives will, in and of themselves, help us sustain our profitability.

We recorded restructuring charges of \$3.3 million in 2005, \$19.6 million in 2004 and \$61.2 million in 2003 to cover costs associated with our cost reduction initiatives. These costs were primarily comprised of employee separation costs and asset impairments. The impact of these restructuring actions on our ability to compete effectively is subject to risks and uncertainties. Because our restructuring activities involve changes to many aspects of our business, the cost reductions could adversely impact productivity and sales to an extent we have not anticipated. Even if we fully execute and implement these activities and they generate the anticipated cost savings, there may be other unforeseeable factors that could adversely impact our profitability and business.

If we are unable to implement our business strategy, our revenues and profitability may be adversely affected.

Our future financial performance and success are largely dependent on our ability to implement our business strategy successfully. Our present business strategy to build upon our position as a global supplier of power and data management semiconductors and standard semiconductor components includes, without limitation, plans to: (1) continue to aggressively manage, maintain and refine our product portfolio; (2) continue to develop leading edge customer support services; (3) expand further our just-in-time delivery capabilities; (4) increase our die manufacturing capacity in a cost-effective manner; (5) reduce further the number of our product platforms and process flows; (6) rationalize our manufacturing operations; (7) relocate manufacturing operations or outsource to lower cost regions; (8) reduce selling and administrative expenses; (9) manage capital expenditures to forecasted production demands; (10) actively manage working capital; (11) develop new products in a more efficient manner; and (12) focus on the development of power management and standard analog and high frequency clock and data management products. We cannot assure you that we will successfully implement our business strategy or that implementing our strategy will sustain or improve our results of operations. In particular, we cannot assure you that we will be able to build our position in markets with high growth potential, increase our volume or revenue, rationalize our manufacturing operations or reduce our costs and expenses.

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

We may require additional capital in the future, and additional funds may not be available on terms acceptable to us.

We believe that our existing cash and cash equivalents, together with the cash that we expect to generate from our operations and sales of assets in the ordinary course of business, will be sufficient to meet our planned

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capital needs for the next 12 months. However, it is possible that we may need to raise additional capital to fund our future activities or to consummate acquisitions of other businesses, products or technologies. As of February 10, 2006, we had \$13.6 million of borrowing capacity available under our revolving credit facility. Subject to the restrictions contained in our senior bank facilities, we may be able to raise these funds by selling securities to the public or selected investors, or by borrowing money. We may not be able to obtain additional funds on favorable terms, or at all. If adequate funds are not available, we may be required to curtail our operations significantly, reduce planned capital expenditures and research and development, make selective dispositions of our assets or obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain technologies or potential markets, or otherwise impair our ability to remain competitive.

We may be unable to make the substantial research and development investments required to remain competitive in our business.

The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. We are committed to maintaining spending on new product development in order to stay competitive in our markets. We cannot assure you that we will have sufficient resources to maintain the level of investment in research and development that is required to remain competitive.

Uncertainties involving the ordering and shipment of, and payment for, our products could adversely affect our business.

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

During various periods in 2003, 2004 and 2005, short customer lead times prevailed given the overcapacity in the industry. These and other factors adversely affected our revenues during these periods.

An inability to introduce new products could adversely affect us, and changing technologies or consumption patterns could reduce the demand for our products.

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

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

Competition in our industry could prevent us from maintaining our revenues and from raising prices to offset increases in costs.

The semiconductor industry, particularly the market for semiconductor components, is highly competitive. As a result of the recent economic downturn, competition in the markets in which we operate has intensified as manufacturers of semiconductor components have offered reduced prices in order to combat production overcapacity and high inventory levels. Although only a few companies compete with us in all of our product lines, we face significant competition within each of our product lines from major international semiconductor companies as well as smaller companies focused on specific market niches. In addition, companies not currently in direct competition with us may introduce competing products in the future. The semiconductor components industry has also been undergoing significant restructuring and consolidations that could adversely affect our competitiveness.

Many of our competitors may have certain advantages over us, including substantially greater financial and other resources with which to withstand adverse economic or market conditions and pursue development, engineering, manufacturing, marketing and distribution of their products; longer independent operating histories and presence in key markets; patent protection and greater name recognition.

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

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

Unless we maintain manufacturing efficiency, our future profitability could be adversely affected.

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

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

We could be required to incur significant capital expenditures for manufacturing and information technology and equipment to remain competitive, the failure, inadequacy or delayed implementation of which could harm our ability to effectively operate our business.

Our capital expenditures were \$46.1 million in 2005, \$81.8 million in 2004 and \$59.8 million in 2003. We may be required to increase our future capital expenditures to meet increased demand.

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

We also may incur significant costs to implement new manufacturing and information technologies to increase our productivity and efficiency. Any such implementation, however, can be negatively impacted by failures or inadequacies of the new manufacturing or information technology and unforeseen delays in its implementation, any of which may require us to spend additional resources to correct these problems or, in some instances, to conclude that the new technology implementation should be abandoned. In the case of abandonment, we may have to recognize losses for amounts previously expended in connection with such implementation that have been capitalized on our balance sheet.

We cannot assure you that we will have sufficient capital resources to make necessary investments in manufacturing or information technology and equipment. In addition, our principal credit agreement limits the amount of our capital expenditures.

If we were to lose one of our large customers or if the existing downturn in the automotive market persists or deepens, our revenues and profitability could be adversely affected.

Product sales to our ten largest customers accounted in the aggregate for approximately 55%, 54% and 54% of our total revenues in 2005, 2004 and 2003, respectively. Many of our customers operate in cyclical industries, and in the past we have experienced significant fluctuations from period to period in the volume of our products ordered. Generally, our agreements with our customers impose no minimum or continuing obligations to purchase our products. We cannot assure you that any of our customers will not significantly reduce orders or seek price reductions in the future or that the loss of one or more of our customers would not have a material adverse effect on our business or prospects.

In 2005, approximately 19% of our total revenues were attributable to our various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation, one of our automotive customers, and certain of its U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. In 2005, our sales to Delphi accounted for less than 3% of our total annual revenues and approximately \$5.4 million of our receivables due from Delphi are subject to collection pending resolution of the reorganization proceedings. There can be no assurance that other automotive customers will not also enter into reorganization proceedings or declare bankruptcy. We may have to change our revenue recognition practices from an accrual basis to a cash basis for these customers if the collection of accounts receivable from them is not reasonably assured, which would have an adverse impact on our profitability.

The loss of our sources of raw materials or manufacturing services, or increases in the prices of such goods or services, could adversely affect our operations and productivity.

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

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

We also use third-party contractors for some of our manufacturing activities, primarily for wafer fabrication and the assembly and testing of final goods. These contract manufacturers, including AIT, ASE, KEC, MagnaChip, Phenitec and PSI, accounted for approximately 25%, 28% and 26% of our manufacturing costs in 2005, 2004 and 2003, respectively. Our agreements with these manufacturers typically require us to forecast product needs and commit to purchase services consistent with these forecasts, and in some cases require longer-term commitments in the early stages of the relationship. Our operations could be adversely affected if these contractual relationships were disrupted or terminated, the cost of such services increased significantly, the quality of the services provided deteriorated or our forecasts proved to be materially incorrect.

Acquisitions and strategic alliances may harm our operating results or cause us to incur debt or assume contingent liabilities or dilute our stockholders.

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

Our international operations subject us to risks inherent in doing business on an international level that could adversely impact our results of operations.

Approximately 24%, 60% and 16% of our revenues in 2005, approximately 28%, 56% and 16% of our revenues in 2004 and approximately 30%, 52% and 18% of our revenues in 2003 were derived from the Americas, the Asia/Pacific region and Europe (including the Middle East), respectively. We maintain significant operations in Seremban, Malaysia; Carmona, the Philippines; Aizu, Japan; Leshan, China; Roznov, the Czech Republic; and Piestany, the Slovak Republic. In addition, we rely on a number of contract manufacturers whose operations are primarily located in the Asia/Pacific region.

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

- economic and political instability (including as a result of the threat or occurrence of armed international conflict or terrorist attacks);
- changes in regulatory requirements, tariffs, customs, duties and other trade barriers;
- transportation delays;

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- power supply shortages and shutdowns;
- difficulties in staffing and managing foreign operations and other labor problems;
- currency convertibility and repatriation;
- taxation of our earnings and the earnings of our personnel; and
- other risks relating to the administration of or changes in, or new interpretations of, the laws, regulations and policies of the jurisdictions in which we conduct our business.

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

If we fail to attract and retain highly-skilled personnel, our results of operations and competitive position could deteriorate.

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

Changes in stock option accounting rules may adversely impact our results of operations prepared in accordance with generally accepted accounting principles, our stock price and our competitiveness in the employee marketplace.

Technology companies like ours have a history of using broad-based employee stock option programs to hire, incentivize and retain our workforce in a competitive marketplace. Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation,” allowed companies the choice of either using a fair value method of accounting for options, which would result in expense recognition for all options granted, or using an intrinsic value method, as prescribed by Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees,” with a pro forma disclosure of the impact on net income (loss) of using the fair value recognition method. We have elected to apply APB 25 and accordingly, we generally do not recognize any expense with respect to employee stock options as long as such options are granted at exercise prices equal to the fair value of our common stock on the date of grant. In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R, “Share-Based Payment,” which replaces SFAS No. 123 and supersedes APB Opinion No. 25. Under SFAS No. 123R, companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. The guidance provides that employee stock options and employee stock purchase plan shares are included within the term “share-based compensation arrangements.” Public companies will be required to apply SFAS No. 123R as of the first annual reporting period beginning after June 15, 2005. The cumulative effect of initially applying SFAS No. 123R, if any, is recognized as of the required effective date. We plan to adopt SFAS No. 123R using the modified prospective application method as defined by SFAS No. 123R and accordingly will begin recognizing compensation expense in the first quarter of 2006. In light of our anticipated adoption of FAS 123R, we and our compensation committee are re-evaluating our current incentive compensation strategies. Based on this re-evaluation, we may make changes to our policies and procedures regarding equity-based

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compensation. The adoption of SFAS No. 123R beginning in the first quarter of fiscal 2006 will have an adverse impact on our results of operations as we will be required to expense the fair value of our share-based compensation arrangements rather than disclosing the impact on results of operations within our footnotes in accordance with the disclosure provisions of SFAS No. 123. This could negatively impact our future common stock price. In addition, this could impact our ability to utilize broad-based employee stock plans to reward employees and could result in a competitive disadvantage to us in the employee marketplace.

We use a significant amount of intellectual property in our business. Some of that intellectual property is currently subject to disputes with third parties, and litigation could arise in the future. If we are unable to protect the intellectual property we use, our business could be adversely affected.

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

- any of the substantial number of U.S. and foreign patents and pending patent applications that we employ in our business, including those that Motorola assigned, licensed or sublicensed to us in connection with our 1999 recapitalization, will not lapse or be invalidated, circumvented, challenged, abandoned or licensed to others;
- the license rights granted by Motorola in connection with our recapitalization will provide competitive advantages to us;
- any of our pending or future patent applications will be issued or have the coverage originally sought;
- any of the trademarks, copyrights, trade secrets, know-how or mask works that Motorola has assigned, licensed or sublicensed to us in connection with our recapitalization will not lapse or be invalidated, circumvented, challenged, abandoned or licensed to others; or
- any of our pending or future trademark, copyright, or mask work applications will be issued or have the coverage originally sought.

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

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

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

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

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

We are party to securities class action litigation which may be costly to defend and the outcome of which is uncertain.

In July 2001, three stockholder class action lawsuits were filed in the United States District Court for the Southern District of New York against us, certain of our former officers, current and former directors and various investment banking firms who acted as underwriters in connection with our initial public offering in May 2000. In April 2002, the plaintiffs filed a consolidated, amended complaint that supercedes the individual complaints originally filed. The amended complaint generally alleges that our offering documents failed to disclose certain underwriting fees and commissions and underwriter tie-ins and other arrangements with certain customers of the underwriters that impacted the price of our common stock in the after-market. The plaintiffs are seeking unspecified damages. On July 15, 2002, together with other issuer defendants, we filed a collective motion to dismiss the class action lawsuit. On February 19, 2003, the Court dismissed claims brought against us under the antifraud provisions of the securities laws with prejudice. However, the Court denied the motion to dismiss claims brought under the registration provisions of the securities laws. In addition, the parties have stipulated to the voluntary dismissal without prejudice of claims brought against the current and former directors and officers who were named as individual defendants in the litigation. In June 2003, upon the determination of a special independent committee of our Board of Directors, we elected to participate in a proposed settlement with the plaintiffs in this litigation.

Consummation of the proposed settlement is conditioned upon obtaining approval by the Court. On September 1, 2005, the Court preliminarily approved the proposed settlement, directed that notice of the terms of the proposed settlement be provided to class members and scheduled a fairness hearing, at which objections to the proposed settlement will be heard. Thereafter, the Court will determine whether to grant final approval to the proposed settlement. If this proposed settlement is ultimately approved by the Court, it would result in a dismissal, with prejudice, of all claims in the litigation against us and against any of the other issuer defendants who elect to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants.

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

We are subject to litigation risks.

All industries, including the semiconductor industry, are subject to legal claims, with and without merit. We are involved in a variety of routine legal matters that arise in the normal course of business. These matters typically fall into the following broad categories: those involving suppliers and customers, employment and labor, and intellectual property. We believe it is unlikely that the final outcome of these legal claims will have a

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material adverse effect on our financial position, results of operations or cash flows. However, defense and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal claim or proceeding could have a material effect on our financial position, results of operations or cash flows.

We are exposed to increased costs and risks associated with complying with increasing and new regulation of corporate governance and disclosure standards including Section 404 of the Sarbanes-Oxley Act.

We are spending a significant amount of management time and external resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including under Section 404 of the Sarbanes-Oxley Act of 2002 which requires management's annual review and evaluation of our internal control over financial reporting and attestations of the effectiveness of these systems by our management and by our independent registered public accounting firm. We have completed this Section 404 process for 2005, and in doing so we were required to hire additional personnel and use outside advisory services and as a result we incurred additional accounting and legal expenses. We believe that our internal control over financial reporting was effective as of December 31, 2005; however, if in the future our Chief Executive Officer, Chief Financial Officer or independent registered public accounting firm determines that our internal control over financial reporting is not effective as specified by applicable SEC rules and regulations and/or other applicable standards, our ability to publish accurate financial statements on a timely basis could be jeopardized and our common stock price and our business could be affected in a material adverse manner.

We do not expect that our internal control over financial reporting and more broadly our disclosure controls and procedures will prevent and/or detect all errors and all fraud. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. That being said, a control procedure, no matter how well designed and operated can provide only reasonable, not absolute, assurance that objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, projections of any evaluation of effectiveness to future periods has risks, and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Because of its inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements. Further, these sorts of controls and procedures must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

See Part II, Item 9A "Controls and Procedures" of this report for information on disclosure controls and procedures and internal control over financial reporting.

Environmental and other regulatory matters could adversely affect our ability to conduct our business and could require expenditures that could have a material adverse effect on our results of operations and financial condition.

Our manufacturing operations are subject to various environmental laws and regulations relating to the management, disposal and remediation of hazardous substances and the emission and discharge of pollutants into the air and water. Our operations are also subject to laws and regulations relating to workplace safety and worker health, which, among other things, regulate employee exposure to hazardous substances. Motorola has agreed to indemnify us for environmental and health and safety liabilities related to the conduct or operations of our business or Motorola's ownership, occupancy or use of real property occurring prior to the closing of our 1999 recapitalization. We also have purchased environmental insurance to cover certain claims related to historical contamination and future releases of hazardous substances. However, we cannot assure you that such

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indemnification arrangements and insurance policy will cover all material environmental costs. In addition, the nature of our operations exposes us to the continuing risk of environmental and health and safety liabilities related to events or activities occurring after our recapitalization.

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

- changes in environmental or health and safety laws or regulations;
- the manner in which environmental or health and safety laws or regulations will be enforced, administered or interpreted;
- our ability to enforce and collect under indemnity agreements and insurance policies relating to environmental liabilities; or
- the cost of compliance with future environmental or health and safety laws or regulations or the costs associated with any future environmental claims, including the cost of clean-up of currently unknown environmental conditions.

Terrorist attacks, such as the attacks that occurred in New York and Washington D.C. on September 11, 2001, or threats or occurrences of international armed conflict or other terrorist activities both in the United States and internationally may affect the markets in which our common stock trades, the markets in which we operate and our profitability.

On September 11, 2001 the United States was the target of terrorist attacks of unprecedented scope. The threat or occurrences of international armed conflict or other terrorist activities both in the United States and internationally may affect the markets in which our common stock trades, the market in which we operate and our profitability. The terrorist attacks have caused instability in the global financial markets and future or threatened terrorist attacks or occurrences of international armed conflict could result in greater economic instability.

Warranty claims, product liability claims and product recalls could harm our business, results of operations and financial condition.

We face an inherent business risk of exposure to warranty and product liability claims in the event that our products fail to perform as expected or such failure of our products results, or is alleged to result, in bodily injury or property damage (or both). In addition, if any of our designed products are or are alleged to be defective, we may be required to participate in their recall. As suppliers become more integrally involved in the electrical design, original equipment manufacturers are increasingly expecting them to warrant their products and are increasingly looking to them for contributions when faced with product liability claims or recalls. A successful warranty or product liability claim against us in excess of our available insurance coverage and established reserves, or a requirement that we participate in a product recall, would have adverse effects (that could be material) on our business, results of operations and financial condition.

Trends, Risks and Uncertainties Relating to Our Indebtedness

Our substantial debt could impair our financial condition and adversely affect our ability to operate our business.

We are highly leveraged and have substantial debt service obligations. As of December 31, 2005, we had total long-term indebtedness of \$1,067.0 million (including current maturities, but excluding unused commitments) and interest expense of \$61.5 million for the year ended December 31, 2005. Also, we may incur additional debt in the future, subject to certain limitations contained in our debt instruments.

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The degree to which we are leveraged could have important consequences to you, including:

- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired;
- a significant portion of our cash flow from operations must be dedicated to the payment of interest and principal on our debt, which reduces the funds available to us for our operations;
- some of our debt is and will continue to be at variable rates of interest, which may result in higher interest expense in the event of increases in market interest rates;
- our debt agreements contain, and any agreements to refinance our debt likely will contain, financial and restrictive covenants, and our failure to comply with them may result in an event of default which, if not cured or waived, could have a material adverse effect on us;
- our level of indebtedness will increase our vulnerability to general economic downturns and adverse industry conditions;
- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and the semiconductor industry; and
- our substantial leverage could place us at a competitive disadvantage vis-à-vis our competitors who have less leverage relative to their overall capital structures.

We may incur more debt, which could exacerbate the risks described above.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The agreements relating to our outstanding indebtedness restrict us from incurring additional indebtedness, but do not fully prohibit us or our subsidiaries from doing so. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify. Some of the debt we may incur may be secured by the same collateral securing certain of our existing indebtedness.

The agreements relating to our indebtedness may restrict our current and future operations, particularly our ability to respond to changes or to take some actions.

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

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

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

Our failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our operating results and our financial condition.

If there were an event of default under any of the agreements relating to our outstanding indebtedness the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or if accelerated upon an event of default or, if we were required to repurchase any of our debt securities upon a change of control, that we would be able to refinance or restructure the payments on those debt securities. Further, if we are unable to repay, refinance or restructure our indebtedness under our secured debt, the holders of such debt could proceed against the collateral securing that indebtedness. In addition, any event of default or declaration of acceleration under one debt instrument could also result in an event of default under one or more of our other debt instruments.

We may not be able to generate sufficient cash flow to meet our debt service obligations.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. If we do not generate sufficient cash flow from operations and proceeds from sales of assets in the ordinary course of business to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling additional assets, reducing or delaying capital investments or seeking to raise additional capital. The terms of our financing agreements contain limitations on our ability to incur additional indebtedness. As of February 10, 2006, we had \$13.6 million of borrowing capacity available under our revolving credit facility. On January 9, 2003, we amended our primary foreign exchange hedging agreement to provide for termination if at any time the amount available under our revolving credit facility is less than \$2.5 million. We cannot assure you that any refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, or that additional financing could be obtained on acceptable terms, if at all, or would be permitted under the terms of our various debt instruments then in effect. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations, as well as on our ability to satisfy our debt obligations.

Trends, Risks and Uncertainties Relating to Our Common Stock

Fluctuations in our quarterly operating results may cause our stock price to decline.

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

- the timing and size of orders from our customers, including cancellations and reschedulings;
- the timing of introduction of new products;
- the gain or loss of significant customers, including as a result of industry consolidation;
- seasonality in some of our target markets;
- changes in the mix of products we sell;

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- changes in demand by the end-users of our customers' products;
- market acceptance of our current and future products;
- variability of our customers' product life cycles;
- changes in manufacturing yields or other factors affecting the cost of goods sold, such as the cost and availability of raw materials and the extent of utilization of manufacturing capacity;
- changes in the prices of our products, which can be affected by the level of our customers' and end-users' demand, technological change, product obsolescence, competition or other factors;
- cancellations, changes or delays of deliveries to us by our third-party manufacturers, including as a result of the availability of manufacturing capacity and the proposed terms of manufacturing arrangements;
- our liquidity and access to capital; and
- our research and development activities and the funding thereof.

Our stock price may be volatile, which could result in substantial losses for investors in our securities.

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

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

- variations in our quarterly operating results;
- changes in securities analysts' estimates of our financial performance;
- changes in market valuations of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures, capital commitments, new products or product enhancements;
- loss of a major customer or failure to complete significant transactions; and
- additions or departures of key personnel.

The trading price of our common stock since our initial public offering has ranged from a high of \$27.75 on the Nasdaq National Market on May 1, 2000 to a low of \$0.89 on October 4, 2002. The last reported price of our common stock on February 10, 2006 was \$6.72 per share.

TPG, as our principal stockholder, controls our company, which will limit the ability of our other stockholders to influence the outcome of director elections and other matters submitted for a vote of the stockholders.

On November 10, 2005, TPG ON Holdings LLC, an affiliate of Texas Pacific Group, our largest shareholder, converted its Series A cumulative preferred stock into approximately 49 million shares of common stock. We agreed to issue to TPG ON Holdings LLC inducement shares upon conversion representing an 8% share premium of approximately 4 million shares of our common stock. After the conversion of the preferred stock into common stock and the payment of the inducement shares, Texas Pacific Group and its affiliates' beneficial ownership of the Company's common stock equaled approximately 165.2 million shares. As of February 10, 2006, these shares represented 52.9% of the total voting power of our common stock. As a result, Texas Pacific Group, through its affiliates, is able to:

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

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

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

Provisions in our charter documents may delay or prevent the acquisition of our company, which could decrease the value of our stock.

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

- create a board of directors with staggered terms;
- permit only our board of directors or the chairman on our board of directors to call special meetings of stockholders;
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting;
- prohibit stockholder action by written consent;
- authorize the issuance of “blank check” preferred stock, which is preferred stock with voting or other rights or preferences that could impede a takeover attempt and that our board of directors can create and issue without prior stockholder approval; and
- require the approval by holders of at least 66 ²/₃% of our outstanding common stock to amend any of these provisions in our certificate of incorporation or bylaws.

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

Item 1B. *Unresolved Staff Comments*

None that meet the criteria of this item.

Item 2. *Properties*

In the United States, our corporate headquarters as well as manufacturing, design center, and research and development operations are located in approximately 1.5 million square feet of building space on property that we own in Phoenix, Arizona. We also lease properties around the world for use as sales offices, design centers, research and development labs, warehouses, logistic centers and trading offices. The size and/or location of these properties change from time to time based on business requirements. We operate distribution centers, which are leased or contracted through a third party, in locations throughout Asia, Europe and the Americas. We own our manufacturing facilities in the United States, Japan, Malaysia, the Philippines, Slovakia and the Czech Republic. These facilities are primarily manufacturing operations, but also include office, utility, laboratory, facilities, warehouse and unused space. Our joint venture in Leshan, China also owns manufacturing, warehouse, laboratory, office and unused space.

In November 2003, we announced our decision to discontinue our assembly and test operations at our site in Roznov, Czech Republic and move these operations to our facility in Seremban, Malaysia and to contract manufacturers. The transfer of manufacturing was completed in 2004. In December 2003, we announced our decision to phase out manufacturing operations at our facility in East Greenwich, Rhode Island. We completed

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this closure during the fourth quarter of 2005. We transferred the production from this facility to our lower cost manufacturing facilities. This former manufacturing facility is currently being marketed for sale. We still own and occupy an approximately 58,000 square foot design center in East Greenwich, Rhode Island.

As part of our 1999 recapitalization, Motorola conveyed to us the surface rights to a portion of the land located at our Phoenix facility, excluding the subsurface rights, and conveyed buildings located at the Phoenix facility. These buildings do not include any treatment facilities relating to Motorola's environmental clean-up operations at the Phoenix facility. We executed a declaration of covenants, easements and restrictions with Motorola providing access easements for the parties and granting to us options to purchase or to lease the subsurface rights of the land. In 2005, we announced plans to sell unused portions of the Phoenix, Arizona location. We plan to sell approximately 42 acres of land and three buildings located on this land. The property and buildings are currently being marketed for sale. The remainder of the Phoenix site will continue as our corporate headquarters as well as manufacturing, design center and research and development facility.

We believe that our facilities around the world, whether owned or leased, are well maintained. We believe that we have sufficient access to productive capacity to meet our needs for the majority of the products in our business lines for the foreseeable future.

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

Item 3. Legal Proceedings

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

Securities Class Action Litigation

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

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

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

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds, as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. We expect that our insurance proceeds will be sufficient for these purposes and that we will not otherwise be required to contribute to the proposed settlement.

Consummation of the proposed settlement is conditioned upon obtaining approval by the Court. On September 1, 2005, the Court preliminarily approved the proposed settlement, directed that notice of the terms of the proposed settlement be provided to class members, and scheduled a fairness hearing for April 24, 2006, at which objections to the proposed settlement will be heard. Thereafter, the Court will determine whether to grant final approval to the proposed settlement.

If the proposed settlement described above is not consummated, we intend to continue to defend the litigation vigorously. While we can make no promises or guarantees as to the outcome of these proceedings, we believe that the final result of these actions will have no material effect on our consolidated financial condition, results of operations or cash flows.

AMS Matter

On March 22, 2005, we entered into a settlement agreement with Austriamicrosystems, AG ("AMS") regarding a pending lawsuit. Under the settlement agreement we paid AMS \$2.4 million in cash upon the signing of the agreement. We had previously reserved \$2.5 million as a reasonable loss estimate of the loss exposure for

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this matter. The settlement agreement includes, among other things, a full and complete mutual release of any and all claims, except for any claims arising out of the arbitration described below. It also provides that the pending litigation will be dismissed with prejudice and each party will bear its own costs and fees incurred in connection with the litigation. This dismissal occurred shortly after the signing of the agreement. The settlement agreement requires that we and AMS enter into final, binding and non-appealable arbitration limited to one unresolved issue associated with the pending litigation. The arbitration is currently anticipated to be held during the second quarter of 2006. If the arbitrator rules in favor of AMS, we will pay an additional \$2.2 million within fifteen days of the ruling by the arbitrator. If the arbitrator rules in favor of us, AMS will not be entitled to any additional amounts of money from us. Each party shall bear its own costs and fees incurred in connection with the arbitration, and the parties will each pay fifty percent of the costs and fees of the arbitrator.

The matter originated out of an action filed in October 2003 in Arizona Superior Court by AMS against us. The complaint (i) alleged that we breached a foundry agreement entered into in 2000 under which AMS was to provide services to us, and (ii) claimed tortious interference with contract. The complaint sought approximately \$5.8 million in contract damages, plus interest, costs, attorneys' fees and exemplary damages.

We plan to vigorously defend ourselves at the arbitration and believe that we will prevail at the proceeding, although there can be no assurances that this will in fact occur. We believe that the outcome will not have a material adverse effect on our consolidated financial condition, results of operation or cash flows.

Other Matters

On September 30, 2005, we entered into a settlement agreement with one of our customers and one of that customer's customers, resolving a potential claim against us for costs incurred in remedying certain alleged failures of products purchased directly or indirectly from us. The potential claim, which was estimated by our customer to aggregate approximately \$31.2 million. Under the settlement agreement we agreed to pay our customer's customer \$2.5 million in cash and each party agreed to bear its own costs and expenses in connection with the claim. At the same time, we entered into separate agreements with our customer, in part as a result of the claim and in part in an effort to increase our business with the customer, pursuant to which we agreed to (i) provide certain rebates to the customer for products and services purchased from us by them for a period of five years beginning October 1, 2005, and (ii) rebate not less than \$2.5 million in cash (regardless of actual purchases) no later than September 25, 2006. The amounts were considered to be warranty claims resulting in a warranty expense of \$5.0 million during the year ended December 31, 2005.

See Part I, Item 1 "Government Regulation" of this report for information on certain environmental matters.

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

None.

PART II**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock has traded under the symbol "ONNN" on the Nasdaq National Market since April 28, 2000, except for the period from October 25, 2002 until September 3, 2003 during which our common stock was quoted on the Nasdaq SmallCap Market. The following table sets forth the high and low closing sale prices for our common stock for the fiscal periods indicated as reported by the Nasdaq National Market or the Nasdaq SmallCap Market, as applicable.

Range of Sales Price

	<u>High</u>	<u>Low</u>
2005		
First Quarter	\$4.90	\$3.32
Second Quarter	\$5.00	\$2.88
Third Quarter	\$5.87	\$4.44
Fourth Quarter	\$6.18	\$4.33
2004		
First Quarter	\$9.00	\$6.35
Second Quarter	\$7.89	\$4.22
Third Quarter	\$4.00	\$2.57
Fourth Quarter	\$4.54	\$3.02

As of February 10, 2006, there were approximately 247 record holders of our common stock and 312,027,864 shares of common stock outstanding.

We have neither declared nor paid any cash dividends on our common stock since our initial public offering, and we do not presently intend to do so. Our future dividend policy with respect to our common stock will depend upon our earnings, capital requirements, financial condition, debt restrictions and other factors deemed relevant by our Board of Directors. Each of our senior bank facilities and convertible notes restricts our ability to pay cash dividends to our common stockholders.

Equity Compensation Plan Table

Information concerning equity compensation plans is incorporated by reference from the text under the caption "Equity Compensation Plan Table" in our Proxy Statement for our May 17, 2006 Annual Meeting of Stockholders.

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Item 6. Selected Financial Data

The following table sets forth certain of our selected financial data for the periods indicated. The statement of operations and balance sheet data set forth below for the years ended and as of December 31, 2005, 2004, 2003, 2002, and 2001 are from our audited consolidated financial statements. You should read this information in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements included elsewhere in this report.

	Year ended December 31,				
	2005	2004	2003	2002	2001
	(in millions, except per share data)				
Statement of Operations data (1):					
Revenues	\$1,260.6	\$1,266.9	\$1,069.1	\$1,093.7	\$1,223.2
Restructuring, asset impairments and other, net (2)	3.3	19.6	61.2	27.7	150.4
Loss on debt prepayment (3)	—	(159.7)	(7.7)	(6.5)	—
Income (loss) before cumulative effect of accounting change	103.5	(123.7)	(145.2)	(141.9)	(715.0)
Cumulative effect of accounting change (4)	(2.9)	—	(21.5)	—	(116.4)
Net income (loss) (5)	100.6	(123.7)	(166.7)	(141.9)	(831.4)
Diluted earnings (loss) per common share before cumulative effect of accounting change (6)	\$ 0.22	\$ (0.55)	\$ (0.83)	\$ (0.86)	\$ (4.21)
Diluted earnings (loss) per common share (6)	\$ 0.21	\$ (0.55)	\$ (0.94)	\$ (0.86)	\$ (4.88)

	December 31,				
	2005	2004	2003	2002	2001
	(in millions)				
Balance Sheet data:					
Total assets	\$1,148.5	\$1,110.1	\$1,164.5	\$1,258.4	\$1,399.2
Long-term debt, less current portion	993.1	1,131.8	1,291.5	1,403.4	1,394.5
Redeemable preferred stock (7)	—	131.1	119.7	110.1	101.6
Stockholders’ deficit	(300.3)	(537.8)	(644.6)	(662.1)	(517.4)

- In the second quarter of 2003, we adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, as amended December 2003 (“FIN No. 46”), and further amended by FIN No. 46R. FIN No. 46 requires that certain variable interest entities be consolidated by the primary beneficiary, as that term is defined in FIN No. 46. We determined that our investment in Leshan-Phoenix Semiconductor Company Limited meets the definition of a variable interest entity and that we are the primary beneficiary; therefore, our investment in Leshan should be consolidated under FIN No. 46. We had previously accounted for our investment in Leshan using the equity method. While consolidation of our investment in Leshan did not impact our previously reported net income (loss) or stockholders’ equity (deficit), financial information for periods beginning on or after January 1, 2001 that appears in this report on Form 10-K has been revised for comparative purposes as allowed by FIN No. 46.
- Restructuring, asset impairments and other, net include employee severance and other exit costs associated with our worldwide profitability enhancement programs, asset impairments, executive severance costs, a \$12.4 million gain in 2002 associated with the settlement of various contractual issues with Motorola and a \$4.6 million gain in 2003 associated with the sale of our Guadalajara property.
- In 2004, this charge included \$114.0 million in redemption premiums, consent fees, incentive fees, dealer manager fees and certain third party costs and \$45.7 million in capitalized closing costs and unamortized debt discounts that were written off associated with our various refinancing activities. In 2002 and 2003, the charge represents the write-off of capitalized debt issuance costs and certain third party expenses in connection with the prepayment of a portion of our senior bank facilities.

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- (4) Effective January 1, 2001, we changed our accounting method for recognizing revenue on sales to distributors. Recognition of revenue and the related gross profit on sales to distributors is now deferred until the distributor resells the product to the end user. During the second quarter of 2003, we changed our method of accounting for net unrecognized actuarial gains or losses relating to our defined benefit pension obligations. Historically, we amortized our net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, we no longer defer actuarial gains or losses and will recognize such gains and losses during the fourth quarter of each year, which is the period in which our annual pension plan actuarial valuations are prepared. The impact of this change for periods prior to January 1, 2003 was a charge of \$21.5 million, both before and after income taxes.
- In 2005, we adopted FASB Interpretation No. 47 “Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143” (“FIN 47”). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 “Accounting for Asset Retirement Obligations” (“Statement 143”) refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The impact of the adoption of FIN 47 to our financial condition and results of operations was a charge of \$2.9 million, net of an income tax benefit of \$0.3 million, for the year ended December 31, 2005.
- (5) The net loss for 2001 includes a charge of \$366.8 million to establish a valuation allowance for a portion of our deferred tax assets.
- (6) Diluted earnings per common share for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 are calculated by deducting: dividends on our redeemable preferred stock of \$9.2 million, \$9.9 million, \$9.2 million, \$8.5 million and \$2.4 million, respectively; the accretion of the increase in redemption value of our redeemable preferred stock of \$(1.0) million in 2005, \$1.5 million in 2004 and \$0.5 million in 2003; the dividend from inducement shares issued upon conversion of convertible redeemable preferred stock of \$20.4 million in 2005; the allocation of undistributed earnings to preferred shareholders of \$9.7 million in 2005; and the accretion of the beneficial conversion feature on redeemable preferred stock of \$13.1 million in 2001 from net income (loss) for such periods and then dividing the resulting amounts by the weighted average number of common shares outstanding (including the incremental shares issuable upon the assumed exercise of stock options and conversion of preferred stock to the extent they are not anti-dilutive) during such periods. On November 10, 2005, we entered into a Conversion and Termination Agreement with an affiliate of TPG to convert its preferred stock into approximately 49.4 million shares of our common stock. To induce the conversion, we issued approximately 3.9 million additional shares of our common stock to such affiliate of TPG. Following the conversion, none of the authorized shares of preferred stock remained outstanding. See Part II, Item 9B. “Other Information” of this report for the status of the Certificate of Designations for the Series A Cumulative Convertible Redeemable Preferred Stock.
- (7) The redeemable preferred stock outstanding at December 31, 2004, 2003, 2002 and 2001 was issued to an affiliate of Texas Pacific Group in September 2001. As described above, on November 10, 2005, we entered into a Conversion and Termination Agreement with TPG to convert the preferred stock into shares of our common stock. As of December 31, 2005, there were no shares of redeemable preferred stock outstanding.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with our audited historical consolidated financial statements, which are included elsewhere in this Form 10-K. Management’s Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risk, uncertainties and other factors. Actual results could differ materially because of the factors discussed in Part I, Item 1A. “Risk Factors” of this Form 10-K.

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Executive Overview

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

Industry Overview

Worldwide semiconductor industry sales were \$227.5 billion in 2005, an increase of 6.8% from \$213.0 billion in 2004. We participate in unit and revenue surveys and use data summarized by the World Semiconductor Trade Statistics group to evaluate overall semiconductor market trends and also to track our progress against the total market in the areas we provide semiconductor components. The following table sets forth total worldwide semiconductor industry revenues and revenues in our total addressable market since 2001:

<u>Year Ended December 31,</u>	<u>Worldwide Semiconductor Industry Sales (1)</u>	<u>Percent Change</u>	<u>Total Addressable Market Sales (1) (2)</u>	<u>Percent Change</u>
	<u>(in billions)</u>		<u>(in billions)</u>	
2005	\$ 227.5	6.8%	\$ 26.5	0.0%
2004	\$ 213.0	28.0%	\$ 26.5	14.2%
2003	\$ 166.4	18.3%	\$ 23.2	14.4%
2002	\$ 140.7	1.2%	\$ 20.3	2.5%
2001	\$ 139.0	(32.0)%	\$ 19.8	(29.8)%

- (1) Based on shipment information published by World Semiconductor Trade Statistics (WSTS), an industry research firm. WSTS collects this information based on product shipments, which is different from our revenue recognition policy as described in “Critical Accounting Policies — Revenue Recognition” contained elsewhere in this report. We believe the data provided by WSTS is reliable, but we have not independently verified it. WSTS periodically revises its information. We assume no obligation to update such information.
- (2) Our total addressable market comprises the following specific WSTS product categories: (a) discrete products (all discrete semiconductors other than sensors, RF and microwave power transistors/modules, RF and microwave diodes, RF and microwave SS transistors, power FET modules, IGBT modules and optoelectronics); (b) standard analog products (amplifiers, voltage regulators and references, comparators, ASSP consumer, ASSP computer, ASSP automotive and ASSP industrial and others); and (c) standard logic products (general purpose logic and MOS general purpose logic only). Although we categorize our products as power and data management semiconductors and standard semiconductor components, WSTS uses different product categories.

Following the unprecedented semiconductor industry revenue declines of 2001, the semiconductor industry began to show signs of stability in 2002 and grew more robust in both 2003 and 2004. Worldwide semiconductor industry sales grew by 18.3% in 2003, 28.0% in 2004 and 6.8% in 2005. Sales in our total addressable market grew by 14.2% in 2004 and 14.4% in 2003, reflecting increases in volume and slowing rates of price declines. Sales in our total addressable market remained stable in 2005, reflecting increases in volume that were offset by price declines. The most recently published estimates of WSTS project a compound annual growth rate in our total addressable market of approximately 6% during 2004 through 2008. These are projections and may not be indicative of actual results.

Business Overview

We classify our products broadly as power and data management semiconductors and standard semiconductor components. We design, manufacture and market an extensive portfolio of semiconductor components that addresses the design needs of sophisticated electronic systems and products. Our power management semiconductor components control, convert, protect and monitor the supply of power to the

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different elements within a wide variety of electronic devices. Our data management semiconductor components provide high-performance clock management and data flow management for precision computing and communications systems. Our standard semiconductor components serve as “building block” components within virtually all electronic devices. These various products fall into the logic, analog and discrete categories used by WSTS.

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

During the first half of 2005, we experienced an increase in the end market unit demand sufficient to offset price decreases. We also enjoyed growth in bookings during the second quarter with the book to bill ratio above one for the first quarter since the second quarter of 2004. During the second half of 2005 we also experienced an increase in the end market unit demand sufficient to grow revenues despite price decreases. We expect price declines during 2006 to be moderate and we will continue to monitor the supply and demand picture to determine if pricing could be held or increased.

Cost Savings and Restructuring Activities

Since the fourth quarter of 2000, we have been implementing profitability enhancement programs to improve our cost structure and, as a result, we expect to rank, as compared to our primary competitors, among the lowest in terms of cost structure.

Our 2004 profitability enhancement program includes the phase out of our manufacturing operations in East Greenwich, Rhode Island, which was announced in December 2003, and our assembly and test operations in the Czech Republic, which was announced in November 2003. We began to realize savings from this program during the fourth quarter of 2004, with the full benefit beginning by the end of the fourth quarter of 2005. Despite delays of approximately two quarters due to increased demand, the closure of our operations in East Greenwich was completed in the third quarter of 2005 with all manufacturing equipment decommissioned and removed. During the fourth quarter of 2005, we successfully completed the work related to the decommissioning of the manufacturing building, which is currently being marketed for sale. We expect to incur marginal operating expenses in 2006 to maintain the building until the sale is completed. Overall, we expect the full cost savings from these activities will produce at least \$20 million to \$25 million of annual cost savings beginning in the first quarter of 2006.

In the second quarter of 2004, we evaluated our operations in the Czech Republic and determined certain overhead functions were no longer necessary as a result of our previously announced transfer of our back-end manufacturing lines in Roznov to Malaysia and the Philippines. Following the reduction of such overhead functions, we realized approximately \$7.7 million of actual cost savings in 2005.

We expect the total estimated annualized cost savings from the 2004 profitability enhancement program, including the transfer of our back-end manufacturing lines from Roznov to Malaysia, to reduce our cost of revenues due to reduced employee costs, reduced depreciation and other cost savings, by \$18.3 million to \$20.9 million, \$3.0 million to \$3.8 million and \$6.4 million to \$8.0 million, respectively.

In the first quarter of 2004, we entered into a five-year agreement with respect to the outsourcing of information technology infrastructure. As part of the agreement, we sold certain system software modules, resulting in a loss on disposal of assets of \$12.0 million. As a result of these actions, starting in the second

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quarter of 2004, we began to realize approximately \$4.0 million of annualized cost savings that reduces our general and administrative expenses due to reduced depreciation expense.

In the second quarter of 2005, we announced our plan to transfer wafer fabrication operations from our facility in Malaysia to our facility in Arizona by the end of 2006, which will eliminate approximately 80 jobs. As a result of this action, we expect to realize costs savings of approximately \$25.0 million to \$30.0 million over the next five years, beginning in the third quarter of 2006. Savings during 2006 are expected to be insignificant due to transition and other costs; however, savings during 2007 are expected to be approximately \$7 million.

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

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

New Product Innovation

As a result of the success of our research and development initiatives, excluding the introduction of lead-free products, we introduced 133 new products in 2005, 119 new products in 2004 and 260 new products in 2003. Our new product development efforts continue to be focused on building solutions in power management that appeal to customers in focused market segments and across multiple high growth applications. It is our practice to regularly re-evaluate our research and development spending, to assess the deployment of resources and to review the funding of high growth technologies regularly. We deploy people and capital with the goal of maximizing our investment in research and development in order to position us for continued growth. As a result, we often invest opportunistically to refresh existing products in our commodity analog, standard component, MOS power and clock and data management products. We invest in these initiatives when we believe there is a strong customer demand or opportunities to innovate our current portfolio in high growth markets and applications.

Debt Reduction and Financing Activities

Since our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. During 2002 and 2003, we engaged in several debt refinancing transactions, which extended a portion of our debt maturities. Some of the transactions that extended our debt maturities also resulted in an increase in our overall interest expense and others lowered our overall interest expense. In connection with these transactions, we amended our senior bank facilities to, among other things, make our financial covenants less restrictive on the whole.

In the second half of 2003 and continuing into 2004, we began undertaking measures to reduce our long-term debt and related interest costs. We reduced both our total debt and interest expense as a result of our public offerings of common stock in September 2003 and February 2004, a portion of the proceeds from which we applied to prepay and redeem a portion of our outstanding debt prior to scheduled maturity. We also lowered our interest expense further as a result of the issuance of our zero coupon convertible senior subordinated notes and the refinancing of our senior bank facilities, the proceeds from which were used to repay higher interest notes.

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In the second half of 2005 we continued these measures to reduce our interest costs by issuing 1.875% convertible senior subordinated notes and using the proceeds from the issuance, along with cash on hand, to repay our junior subordinated note, which carried a significantly higher interest rate than the convertible senior subordinated notes. In November 2005, our outstanding Series A Cumulative Convertible Redeemable Preferred Stock beneficially owned by an affiliate of the Texas Pacific Group (“TPG”) was converted into common stock, which eliminated the accrual of preferred stock dividends. Additionally, in December 2005 and also in January 2006 we refinanced the term loans under our senior bank facilities to reduce the interest rate on the senior bank facilities.

As a result of these debt prepayments and refinancings, we reduced our total long-term debt balance (including the current portion) from \$1,302.9 million as of December 31, 2003 to \$1,067.0 million as of December 31, 2005. We also reduced our interest expense from \$151.1 million for the year ended December 31, 2003 to \$61.5 million for the year ended December 31, 2005.

The details of each of these financing events are outlined in the following sections. Also, see “Liquidity and Capital Resources” elsewhere in this report and Note 7 “Long-Term Debt,” Note 9 “Redeemable Preferred Stock” and Note 10 “Common Stock” of the notes to our audited consolidated financial statements included elsewhere in this report.

Outlook

Based upon booking trends, backlog levels and estimated turns levels, we anticipate that revenues will be approximately \$330.0 million in the first quarter of 2006 as compared to revenues of \$302.4 million in the first quarter of 2005 and revenues of \$341.8 million in the fourth quarter of 2005. Backlog levels at the beginning of the first quarter of 2006 were up from backlog levels at the beginning of the fourth quarter of 2005, and represented over 90 percent of our anticipated first quarter 2006 revenues. We expect average selling prices will be down approximately one percent in the first quarter of 2006. We also expect that cost reductions will offset the decline in average selling prices and that gross profit will be flat at approximately 35% in the first quarter of 2006. Beginning in the first quarter of 2006, we are required to expense stock based compensation in accordance with the adoption of Statement of Financial Accounting Standards No. 123(R) “Share Based Payment”. We currently expect this expense to be approximately \$2.0 million in the first quarter of 2006. Due to the volatility of the price of our common stock and the uncertainty of future option grants to employees, we are unable to estimate this expense for periods subsequent to the first quarter of 2006.

On November 16, 2005, we accelerated the vesting of certain unvested and “out-of-the-money” stock options outstanding under our stock plans. The acceleration of vesting applied to all unvested options that had an exercise price per share of \$7.00 or higher, with the exception of options granted to directors, certain officers and employees with options granted under the French provisions in our 2000 Stock Incentive Plan. As a result of the acceleration, options to purchase approximately 2.5 million shares of our common stock became exercisable immediately. The weighted average exercise price of the affected options was \$7.04 per share. In making the decision to accelerate these options, the Board of Directors believed it was in the best interest of the stockholders to reduce the future earnings impact resulting from the planned adoption of SFAS 123R in the first quarter of 2006, and the resulting impact that this may have on our market value. This acceleration of these options that were outstanding on November 16, 2005 is expected to reduce future expenses on a pre-tax basis by approximately \$3.6 million in 2006.

For the first quarter of 2006, we expect selling and marketing and general and administrative expenses at approximately 12% of revenues and research and development expenses at approximately 7% of revenues. We anticipate that net interest expense will be approximately \$12.5 million for the first quarter of 2006. For the year ended December 31, 2006 we anticipate cash capital expenditures will be approximately \$110 million.

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Results of Operations

The following table summarizes certain information relating to our operating results that has been derived from our audited consolidated financial statements for the years ended December 31, 2005, 2004 and 2003. The amounts in the following table are in millions:

	Year ended December 31,			Dollar Change	
	2005	2004	2003	2004 to 2005	2003 to 2004
Revenues	\$1,260.6	\$1,266.9	\$1,069.1	\$ (6.3)	\$ 197.8
Cost of revenues	842.1	857.0	768.4	(14.9)	88.6
Gross profit	418.5	409.9	300.7	8.6	109.2
Operating expenses:					
Research and development	93.7	94.4	85.5	(0.7)	8.9
Selling and marketing	79.3	73.8	63.0	5.5	10.8
General and administrative	74.6	72.2	69.2	2.4	3.0
Amortization of intangibles	—	—	5.9	—	(5.9)
Restructuring, asset impairments and other, net	3.3	19.6	61.2	(16.3)	(41.6)
Total operating expenses	250.9	260.0	284.8	(9.1)	(24.8)
Operating income	167.6	149.9	15.9	17.7	134.0
Other income (expenses):					
Interest expense	(61.5)	(101.2)	(151.1)	39.7	49.9
Interest income	5.5	2.2	2.0	3.3	0.2
Other	(3.0)	(4.2)	4.6	1.2	(8.8)
Loss on debt prepayment	—	(159.7)	(7.7)	159.7	(152.0)
Other income (expenses), net	(59.0)	(262.9)	(152.2)	203.9	(110.7)
Income (loss) before income taxes, minority interests, and cumulative effect of accounting change	108.6	(113.0)	(136.3)	221.6	23.3
Income tax provision	(1.5)	(7.4)	(7.7)	5.9	0.3
Minority interests	(3.6)	(3.3)	(1.2)	(0.3)	(2.1)
Net income (loss) before cumulative effect of accounting change	103.5	(123.7)	(145.2)	227.2	21.5
Cumulative effect of accounting change net of income tax	(2.9)	—	(21.5)	(2.9)	21.5
Net income (loss)	\$ 100.6	\$ (123.7)	\$ (166.7)	\$ 224.3	\$ 43.0

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Revenues

Revenues were \$1,260.6 million, \$1,266.9 million and \$1,069.1 million in 2005, 2004 and 2003, respectively. The slight decrease from 2004 to 2005 was primarily due to a decrease in average selling prices of approximately 6%, partially offset by increased sales volume. The increase from 2003 to 2004 was primarily due to increased sales volume, which was partially offset by a decrease in average selling prices of approximately 3%. Average selling prices dropped in each quarter of 2003 due to industry competition; however, as capacity utilization began to exceed 85% on an industry-wide basis during the third quarter of 2003, prices began to stabilize. The revenues by product line in each of these three years were as follows (dollars in millions):

	<u>Year Ended</u> <u>December 31, 2005</u>	<u>As a % of</u> <u>Revenue (1)</u>	<u>Year Ended</u> <u>December 31, 2004</u>	<u>As a % of</u> <u>Revenue (1)</u>	<u>Year Ended</u> <u>December 31, 2003</u>	<u>As a % of</u> <u>Revenue (1)</u>
Power Management and Standard						
Analog	\$ 373.2	29.6%	\$ 381.3	30.1%	\$ 333.4	31.2%
MOS Power Devices	223.2	17.7%	235.0	18.5%	152.5	14.3%
High Frequency Clock and Data						
Management	80.3	6.4%	90.4	7.1%	80.5	7.5%
Standard Components (2)	583.9	46.3%	560.2	44.2%	502.7	47.0%
	<u> </u>		<u> </u>		<u> </u>	
Revenues	\$ 1,260.6		\$ 1,266.9		\$ 1,069.1	

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

(2) Revenues for the standard components product line includes \$107.1 million, \$89.7 million and \$79.9 million of revenues from the standard logic product unit for the years ended December 31, 2005, 2004 and 2003, respectively.

Revenues from our power management and standard analog product line declined from 2004 to 2005 and increased from 2003 to 2004. In 2005, the decrease can be attributed to a decrease in revenues from the automotive electronics and wireless communications end markets, partially offset by an increase in revenues from the computing end market. In 2004, revenues increased as increases in demand for consumer electronics and portable wireless devices were slightly offset by further decreases in automotive electronic product revenue.

Revenues from MOS power devices decreased from 2004 to 2005 and increased from 2003 to 2004. The decrease from 2004 to 2005 can be primarily attributed to a decrease in revenue from the computing end market and to the discontinuance of select products sold into the automotive electronics end markets, partially offset by an increase in revenues from the wireless communications end markets. The growth in revenue from 2003 to 2004 can be attributed to increased demand across all markets, with primary growth in revenue attributed to the ongoing introduction of new devices for specific end markets such as computing, portable and consumer electronics, as well as modest increases in the automotive electronics end market.

Revenues from high frequency clock and data management products decreased from 2004 to 2005 and increased from 2003 to 2004. The decrease in 2005 can be attributed to decreased demand across all markets, which has been most pronounced in the industrial electronics and networking end markets. The growth in this sector in 2004 was primarily driven by an increase in the industrial electronics end markets, which was attributable to increased revenue from automated test equipment, partially offset by decreases in the networking end market.

Revenues from standard components increased steadily from 2003 to 2005. This product line consists of many products that are available from numerous competitors in the marketplace and is thus heavily influenced by pricing pressures and general market conditions. The increase in revenue from 2004 to 2005 can be primarily attributed to an increase in revenues from the wireless communications end market, partially offset by a decrease in revenue from the industrial electronics and consumer end markets. The increase in revenue from 2003 to 2004 was attributed to increased demand across all markets, with significant increases in demand for end products used in wireless communications and handheld applications and consumer electronics.

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

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Americas	23.7%	27.4%	30.1%
Asia/Pacific	59.9%	56.1%	52.2%
Europe	16.4%	16.5%	17.7%
Total	100.0%	100.0%	100.0%

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

Gross Profit

Our gross profit was \$418.5 million, \$409.9 million and \$300.7 million in 2005, 2004 and 2003, respectively. As a percentage of revenues, our gross profit was 33.2%, 32.4% and 28.1% in 2005, 2004 and 2003, respectively. Gross profit increased during 2005 as compared to 2004, primarily due to cost savings from our profitability enhancement programs and increased sales volume, which were partially offset by declines in average selling prices. Gross profit increased during 2004 as compared to 2003, due to increased sales volume and cost savings from our profitability enhancement programs, which were partially offset by a decline in average selling prices.

Since the fourth quarter of 2000, we have been implementing profitability enhancement programs to improve our cost structure and as a result, we expect to rank, as compared to our primary competitors, among the lowest in terms of cost structure. In 2004, we realized approximately \$73 million of cost savings as compared to our cost structure during the third quarter of 2003, and in 2005, we realized approximately \$79 million of cost savings as compared to our cost structure during the third quarter of 2004. These savings are as a result of our manufacturing rationalization plan, reductions in non-manufacturing personnel and other cost controls.

Operating Expenses

Research and development expenses were \$93.7 million, \$94.4 million and \$85.5 million, representing 7.4%, 7.5% and 8.0% of revenues in 2005, 2004 and 2003, respectively. The decrease from 2004 to 2005 was primarily attributable to the absence of software application costs associated with the implementation of cost management technology which occurred in 2004, partially offset by increased employee salaries and wages and increased headcount as well as an increase in performance bonuses as a result of our achievement of certain financial goals. The increase from 2003 to 2004 was attributable to increased employee salaries and wages and an increase in performance bonuses as a result of our achievement of certain financial goals, as well as software application costs associated with the implementation of the cost management technology discussed above.

Selling and marketing expenses were \$79.3 million, \$73.8 million and \$63.0 million, representing 6.3%, 5.8% and 5.9% of revenues in 2005, 2004 and 2003, respectively. The increases from 2003 to 2005 were attributable to increased employee salaries and wages and increased headcount of our internal sales and marketing personnel, which include management positions and field application engineers as well as an increase in employee performance bonuses as a result of our achievement of certain financial goals and increased commissions. We plan to make investments in our sales and marketing systems to identify new customers as well as to expand our penetration of existing customers in selected product areas.

General and administrative expenses were \$74.6 million, \$72.2 million and \$69.2 million representing 5.9%, 5.7% and 6.5% of revenues in 2005, 2004 and 2003, respectively. The increase from 2004 to 2005 was attributable to increased costs for external services, including audit and consulting services, and an increase in

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employee performance bonuses associated with our achievement of certain financial results, partially offset by savings from personnel reductions, functional relocations, and lower depreciation. The increase from 2003 to 2004 was attributable to increased costs for external services, including audit and consulting services, and an increase in employee performance bonuses associated with our achievement of certain financial results, partially offset by lower depreciation as a result of our sale-leaseback transaction in the first quarter of 2004 and cost savings from the relocation of functions to lower cost regions.

Amortization of other intangibles was \$0, \$0 and \$5.9 million in 2005, 2004 and 2003, respectively. As a result of the adoption of SFAS No. 142 effective January 1, 2002, we eliminated the amortization of goodwill (see Note 3 “Significant Accounting Policies” of the notes to our audited consolidated financial statements included elsewhere in this report). As discussed in further detail below, amortization of our developed technology intangible asset ceased following the second quarter of 2003 when we wrote-off the remaining balance acquired in connection with our acquisition of Cherry Semiconductor in April 2000.

Other Operating Expenses — Restructuring, Asset Impairments and Other

Restructuring, asset impairments and other charges were \$3.3 million, \$19.6 million and \$61.2 million in 2005, 2004 and 2003, respectively. Our individual quarterly restructuring charges are summarized below. For more information see Note 5 “Restructuring, Asset Impairments and Other, net” of the notes to our audited consolidated financial statements included elsewhere in this report.

- \$0.8 million net reversal of charge recorded in the fourth quarter of 2005, consisting of:
 - \$0.9 million of net adjustments including: \$0.8 million of net reversal of employee separation charges previously recorded in connection with the December 2003 restructuring program and \$0.1 million of employee separation charges reserve for employees whose terminations were announced in December 2002; and
 - \$0.1 million of exit costs related to certain exit activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003.
- \$0.2 million charge recorded in the third quarter of 2005, consisting of:
 - \$0.3 million of employee separation charges related to the June 2005 restructuring program, which was attributable to two employees who rendered services beyond the notification period required by local law and to four employees who were notified of their termination after the second quarter of 2005; and
 - \$0.1 million of net reversal of amounts previously recorded in connection with the December 2003 restructuring program.
- \$2.8 million charge recorded in the second quarter of 2005, consisting of:
 - \$3.1 million of employee separation charges including: \$1.9 million related to general worldwide work force reductions of approximately 60 employees; and \$1.2 million related to the termination of 80 employees in Malaysia resulting from the transfer of wafer fabrication manufacturing operations from Malaysia to the United States;
 - \$0.1 million of exit costs related to certain exit activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003; and
 - \$0.4 million of net adjustments including: \$0.3 million to the employee separation charges reserve related to the shutdown of the Grenoble, France design center that was announced in March 2005; and \$0.1 million of adjustments to the employee separation charges reserve related to the shutdown of assembly and test operations in Roznov, Czech Republic that was announced in November 2003.

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- \$1.1 million charge recorded in the first quarter of 2005, consisting of:
 - \$1.3 million of employee separation charges related to the shutdown of the Grenoble, France design center;
 - \$0.4 million of exit costs including: \$0.3 million related to the shutdown of the Grenoble design center for legal fees and lease termination costs; and \$0.1 million related to certain exit activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003;
 - \$0.5 million gain on sale of fixed assets related to the sale of portions of land at East Greenwich; and
 - \$0.1 million reversal of amounts previously recorded in connection with our June 2002 restructuring program.
- \$5.6 million charge recorded in the fourth quarter of 2004, consisting of:
 - \$3.3 million of asset impairments including \$3.0 million associated with the East Greenwich, Rhode Island facility that was announced in December 2003 and \$0.3 million associated with the closure of the assembly and test operations in Roznov, Czech Republic that was announced in November 2003;
 - \$1.9 million of exit costs including: \$1.9 million of contract termination costs incurred to terminate two information technology outsourcing agreements; \$0.2 million related to certain exit activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003; and \$0.2 million reversal of the exit costs reserve for lease terminations that was announced in December 2002; and
 - \$0.4 million of employee separation charges that included \$0.2 million of new charges and \$0.2 million of adjustments related to the shutdown of our assembly and test operations in Roznov, Czech Republic that was announced in November 2003, \$0.1 million reversal of amounts previously recorded in connection with our September 2003 restructuring program, and \$0.1 million adjustment to the March 2002 restructuring program.
- \$0.9 million charge recorded in the second quarter of 2004, consisting of:
 - \$2.1 million to cover employee separation costs, which included \$1.5 million for the termination of approximately 190 additional employees at Roznov, Czech Republic due to the transfer of our assembly and test operations in Roznov to Malaysia and the Philippines that was announced in November 2003, and \$0.6 million related to the shutdown of our assembly and test operations in Roznov that was announced in November 2003;
 - \$0.1 million of exit costs related to certain exit activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003;
 - \$0.1 million of exit costs related to the information technology outsourcing agreement that was announced in March 2004;
 - \$0.2 million charge to cover costs associated with the separation of one of our executive officers;
 - \$1.2 million reversal of the employee separation charges reserve for employees whose terminations were rescinded due to business improvements and the plan to consolidate accounting systems that was announced in December 2002; and
 - \$0.4 million reversal of exit costs associated with the decommissioning of certain assets that are no longer expected to be incurred, which decommissioning was announced in December 2002.

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- \$13.1 million charge recorded in the first quarter of 2004, consisting of:
 - \$12.0 million of non-cash loss on sale of fixed assets from the sale of certain system software modules, licenses and hardware after entering into a five-year agreement with respect to the outsourcing of information technology infrastructure, messaging, data center network, help desk and onsite management services;
 - \$0.3 million to cover employee separation costs related to the new information technology outsourcing agreement;
 - \$0.7 million of employee separation costs related to the shutdown of our assembly and test operations in Roznov, Czech Republic, that was announced in November 2003; and
 - \$0.1 million of exit costs related to certain activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003.
- \$29.9 million charge recorded in the fourth quarter of 2003, consisting of:
 - \$20.2 million of non-cash asset impairments, including \$15.4 million associated with the East Greenwich, Rhode Island facility and \$4.8 million associated the closure of the assembly and test operations in Roznov, Czech Republic;
 - \$5.2 million to cover employee separation costs related to the phase-out of manufacturing operations in our East Greenwich, Rhode Island facility, the shutdown of our assembly and test operations in Roznov, Czech Republic, and further reductions in general and administrative staffing levels in the United States and Western Europe;
 - \$0.4 million of lease and contract termination exit costs incurred in connection with the consolidation of sales, distribution and administrative facilities in North America;
 - \$4.3 million of other charges consisting of the write-off of a \$2.3 million long-term note receivable and a \$2.0 million write-down of a cost basis investment; and
 - \$0.2 million reversal of amounts previously recorded in connection with our June 2001 and December 2002 restructuring programs.
- \$3.3 million gain recorded in the third quarter 2003, consisting of:
 - \$4.6 million gain recorded in connection with the sale of the Guadalajara, Mexico facility; and
 - \$0.1 million net reversal consisting of minor adjustments to previously recorded restructuring charges; and
 - \$1.4 million charge for employee separation costs, reflecting further reductions in manufacturing; and general and administrative personnel in France, Germany, the Czech Republic, Hong Kong and the United States.
- \$34.6 million charge recorded in the second quarter of 2003, consisting of:
 - \$21.3 million of non-cash impairment charges, including \$20.8 million relating to the write-off of the developed technology intangible asset associated with the April 2000 acquisition of Cherry Semiconductor Corporation and the \$0.5 million write-off of a cost basis investment;
 - \$10.5 million of non-cash asset impairments associated with an assembly and test production line in Malaysia and property and equipment in the United States;
 - \$1.4 million of lease and contract termination exit costs associated with the exit of certain sales and administrative offices and the termination of other purchase and supply agreements;

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- \$1.0 million additional charge associated with a supply contract that was terminated as part of the June 2002 restructuring program; and
- \$0.4 million of charges to cover employee separation costs associated with general and administrative employees primarily in the United States.

Interest Expense

Interest expense was \$61.5 million, \$101.2 million and \$151.1 million in 2005, 2004 and 2003, respectively. The decrease in interest expense from 2003 to 2004 was primarily a result of interest savings from the prepayment of our first-lien senior secured notes, second-lien senior secured notes and senior subordinated notes, which occurred throughout 2004. The decrease in interest expense from 2004 to 2005 was primarily a result of interest savings during the entire year of 2005 that resulted from the refinancings that had occurred during 2004. Our weighted-average interest rate on long-term debt (including current maturities) was 5.4%, 8.6% and 10.8% per annum in 2005, 2004 and 2003, respectively. See “Liquidity and Capital Resources — Key Financing Events” for a description of our refinancing activities.

Loss on Debt Prepayment

Loss on debt prepayment totaled \$159.7 million and \$7.7 million in 2004 and 2003, respectively. The loss on debt prepayment of \$159.7 million in 2004 includes approximately \$113.6 million incurred for call and consent fees, tender offer fees, dealer manager fees and arrangement fees as well as approximately \$45.7 million of debt issuance costs and unamortized discounts that were written off and \$0.4 million of certain third-party costs incurred. These costs were incurred in 2004 in connection with the repayment of the first-lien senior secured notes, second-lien senior secured notes, the senior subordinated notes and the refinancing of the senior bank facilities. The loss on debt prepayment of \$7.7 million in 2003 represents the write-off of debt issuance costs and certain third-party costs incurred with respect to debt refinancings that occurred during 2003. See “Liquidity and Capital Resources — Key Financing Events” for a description of our refinancing activities.

Provision for Income Taxes

Provision for income taxes was \$1.5 million, \$7.4 million and \$7.7 million in 2005, 2004 and 2003, respectively.

The 2005 provision included \$6.1 million for income and withholding taxes of certain of our foreign operations and \$7.6 million of new reserves for potential liabilities in foreign taxing jurisdictions, partially offset by the reversal of \$9.5 million of previously accrued income taxes for anticipated audit issues and the reversal of a \$2.7 million valuation allowance against deferred tax assets for one of our Japanese subsidiaries that returned to profitability.

The 2004 provision related primarily to income and withholding taxes of certain of our foreign operations and also included the reversal of \$11.2 million of previously accrued income taxes after the completion of an examination of our income tax returns for the years 2001, 2000 and 1999 by the Internal Revenue Service, which resulted in no material change in our tax liability for those years, partially offset by a new reserve of \$9.9 million against certain foreign income tax receivables that we determined may not be collectible, creating additional tax expense for the year.

The 2003 provision related primarily to income and withholding taxes of certain of our foreign operations.

Cumulative Effect of Accounting Change

Cumulative effect of accounting change, net of income taxes was \$2.9 million in 2005 and \$21.5 million in 2003.

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In 2005 we recorded a \$2.9 million charge, net of taxes of \$0.3 million, upon adoption of FIN 47 “Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143” (“FIN 47”), which requires recognition of liabilities for legal obligations to perform asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. See “Accounting Changes” for further discussion of FIN 47.

In 2003 we changed our method of accounting for net unrecognized actuarial gains or losses relating to our defined benefit pension obligations. The impact of this change for periods prior to January 1, 2003 was a charge of \$21.5 million, both before and after income taxes, and was reflected as the cumulative effect of a change in accounting principle in 2003. See “Accounting Changes” for further discussion.

Reportable Segments

As previously discussed, our reportable segments are aligned internally as the Integrated Power Group and the Analog Products Group. These segments represent our view of the company and inform how we evaluate the progress of its major components. Information about our reportable segments for the years ended December 31, 2005 and 2004 are as follows, in millions (corresponding information for the year ended December 31, 2003 is not included because it would be impractical to do so as operating expenses were not allocated in the same manner or detail that would allow for comparable disclosures):

	<u>Integrated Power Group</u>	<u>Analog Products Group</u>	<u>Total</u>
Year ended December 31, 2005:			
Revenues from external customers	\$ 700.0	\$ 560.6	\$1,260.6
Segment operating income	\$ 122.4	\$ 109.0	\$ 231.4
Year ended December 31, 2004:			
Revenues from external customers	\$ 705.5	\$ 561.4	\$1,266.9
Segment operating income	\$ 103.1	\$ 93.4	\$ 196.5

Revenues from external customers for the Integrated Power Group and for the Analog Products Group for the year ended December 31, 2003, were \$575.3 million and \$493.8 million, respectively.

Depreciation and amortization expense is included in segment operating income.

Reconciliations of segment information to consolidated financial statements (in millions):

	<u>Year Ended</u>	
	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Operating income for reportable segments	\$ 231.4	\$ 196.5
Unallocated amounts:		
Restructuring, asset impairments and other, net	(3.3)	(19.6)
Other unallocated manufacturing costs	(51.8)	(11.5)
Other unallocated operating expenses	(8.7)	(15.5)
Operating income	<u>\$ 167.6</u>	<u>\$ 149.9</u>

The increase in other unallocated manufacturing costs from \$11.5 million in 2004 to \$51.8 million in 2005 was due primarily to manufacturing costs we continued to incur at our East Greenwich, Rhode Island manufacturing facility in 2005 beyond the original anticipated closure date of that facility, which we did not allocate to the reportable segments. As discussed previously, the closure of the East Greenwich facility was completed in the fourth quarter of 2005 and all of the production from this facility was transferred to our lower cost manufacturing facilities.

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Liquidity and Capital Resources

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

Cash Requirements

Commercial Commitments, Contractual Obligations and Indemnities

Our principal outstanding contractual obligations relate to our long-term debt, operating leases, pension obligations and purchase obligations. The following table summarizes our contractual obligations at December 31, 2005 and the effect such obligations are expected to have on our liquidity and cash flow in the future (in millions):

Commercial commitments	Amount of Commitment by Expiration Period						
	Total	2006	2007	2008	2009	2010	Thereafter
Standby letter of credit	\$ 11.7	\$ 11.3	\$ 0.4	\$ —	\$ —	\$ —	\$ —

Contractual obligations	Payments Due by Period						
	Total	2006	2007	2008	2009	2010	Thereafter
Long-term debt	\$1,067.0	\$ 73.9	\$19.4	\$12.3	\$598.2	\$264.1	\$ 99.1
Operating leases (1) (2)	13.9	7.0	2.3	1.7	0.9	0.6	1.4
Other long-term obligations — pension plans	12.4	3.0	3.0	3.0	3.0	0.4	—
Purchase obligations (1):							
Capital purchase obligations	10.6	10.2	0.4	—	—	—	—
Foundry and inventory purchase obligations	57.8	45.2	3.1	3.0	2.9	1.1	2.5
Mainframe support	8.8	4.6	2.7	0.8	0.7	—	—
Information technology and communication services	22.0	9.1	6.1	6.8	—	—	—
Other	3.6	3.5	0.1	—	—	—	—
Total contractual obligations	\$1,196.1	\$156.5	\$37.1	\$27.6	\$605.7	\$266.2	\$ 103.0

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

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

Our long-term debt includes \$639.1 million under senior bank facilities, \$260.0 million of zero coupon convertible senior subordinated notes due 2024, \$95.0 million under our 1.875% convertible senior subordinated notes due 2025, \$15.4 million under a note payable to a Japanese bank, \$14.0 million under a loan facility with a Chinese bank, \$34.4 million under a loan facility with another Chinese bank and \$9.1 million of capital lease obligations. See Note 7 “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this report.

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

Our other long-term contractual obligations consist of estimated payments to fund liabilities that have been accrued in our consolidated balance sheet for our U.S. and foreign pension plans. (See Note 12 “Employee Benefit Plans” of the notes to our audited consolidated financial statements included elsewhere in this report.) The U.S. pension plan, named the ON Semiconductor Grandfathered Pension Plan (“Grandfathered Plan”), has been terminated effective December 31, 2004 as approved by the Pension Benefit Guaranty Corporation in 2005 and such termination was determined by the Internal Revenue Service not to adversely affect its qualification for federal tax purposes. In connection with the termination of our Grandfathered Plan, all cash funding requirements

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for the liability have been settled and the related plan assets have been distributed as of December 31, 2005. The remaining obligation in the table above includes estimated funding requirements for liabilities related to our foreign pension plans.

Our balance of cash and cash equivalents was \$233.3 million at December 31, 2005. We believe that our cash flows from operations, coupled with existing cash and cash equivalents will be adequate to fund our operating and capital needs over the next 12 months. Our senior bank facilities include a \$25.0 million revolving facility. Letters of credit totaling \$11.7 million were outstanding under the revolving facility at December 31, 2005. We amended our primary foreign exchange hedging agreement to provide for termination if at any time the amount available under our revolving credit facility is less than \$2.5 million.

Contingencies

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

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

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

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

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

See Part I, Item 3 "Legal Proceedings" of this report for possible contingencies related to legal matters and see Part I, Item 1 "Business — Government Regulation" of this report for information on certain environmental matters.

Sources and Uses of Cash

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

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

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

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

If we fail to generate sufficient cash from operations, we may need to raise additional equity or borrow additional funds to achieve our longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us. We believe that cash flow from operating activities coupled with existing cash and cash equivalents will be adequate to fund our operating and capital needs as well as enable us to maintain compliance with our various debt agreements through December 31, 2006. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

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Operations

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

EBITDA

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) is a key indicator that management uses to evaluate our operating performance and cash flows. While EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as an indicator of operating performance or an alternative to cash flow as a measure of liquidity, we believe this measure is useful to investors to assess our ability to meet our future debt service, capital expenditure and working capital requirements. This calculation may differ in method of calculation from similarly titled measures used by other companies. The following table sets forth our EBITDA for the years ended December 31, 2005, 2004 and 2003, with a reconciliation to cash flows from operations, the most directly comparable financial measure under generally accepted accounting principles (in millions):

	December 31, 2005	December 31, 2004	December 31, 2003
Net income (loss)	\$ 100.6	\$ (123.7)	\$ (166.7)
Increase (decrease):			
Depreciation and amortization	99.0	102.1	127.8
Interest expense	61.5	101.2	151.1
Interest income	(5.5)	(2.2)	(2.0)
Income tax provision	1.5	7.4	7.7
EBITDA	257.1	84.8	117.9
Increase (decrease):			
Interest expense	(61.5)	(101.2)	(151.1)
Interest income	5.5	2.2	2.0
Income tax provision	(1.5)	(7.4)	(7.7)
Loss (gain) on sale or disposal of fixed assets	0.8	12.8	(2.8)
Non-cash portion of loss on debt prepayment	—	45.7	6.1
Amortization of debt issuance costs and debt discount	1.7	7.3	8.7
Provision for excess inventories	13.2	11.1	13.0
Cumulative effect of accounting change	3.2	—	21.5
Non-cash impairment write-down of property, plant and equipment	—	3.3	30.7
Non-cash impairment of other long-lived assets	—	—	25.1
Non-cash interest on junior subordinated note payable to Motorola	9.1	14.3	13.0
Deferred income taxes	(5.7)	3.5	0.3
Stock compensation expense	—	0.2	0.1
Other	5.1	3.4	3.4
Changes in operating assets and liabilities	(33.9)	(41.6)	(34.5)
Net cash provided by operating activities	\$ 193.1	\$ 38.4	\$ 45.7

As a result of the improved operating performance we generated positive EBITDA for 2003, 2004 and 2005. EBITDA for 2003 was \$117.9 million, primarily as a result of the restructuring, asset impairment and other, net charges in 2003 that were \$33.5 million higher than those in 2002 and a cumulative effect of accounting change of \$21.5 million in 2003. EBITDA for 2004 declined to \$84.8 million primarily as a result of the charges associated with our previously described debt refinancings partially offset by improved operating performance. EBITDA for 2005 increased to \$257.1 million largely due to the generation of net income of \$100.6 million for the year.

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As discussed in Note 7 “Long-Term Debt” to our audited consolidated financial statements included elsewhere in this report, our debt covenants require us to maintain a trailing 12-month minimum adjusted EBITDA of \$140.0 million. Adjusted EBITDA, as defined under the documents for our senior bank facilities totaled approximately \$278.7 million for the 12 months ended December 31, 2005. This adjusted EBITDA computation excludes certain restructuring and other charges and contains other differences from the EBITDA as defined above. Therefore, EBITDA in the above table is not representative of the adjusted EBITDA used to determine our debt covenant compliance.

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

Working Capital

Working capital fluctuates depending on end-market demand and our effective management of certain items such as receivables, inventory and payables. In times of escalating demand, our working capital requirements may increase as we purchase additional manufacturing inputs and increase production. Our working capital may also be affected by restructuring programs, which may require us to use cash for severance payments, asset transfers and contract termination costs. Our working capital, including cash, was \$202.0 million at December 31, 2005, and has fluctuated between \$202.0 million and \$300.3 million over the last eight quarter-ends.

The components of our working capital at December 31, 2005 and 2004 are set forth below (in millions), followed by explanations for changes between 2004 and 2005 for cash, cash equivalents and short-term investments and any other changes greater than \$5 million:

	December 31,		Change
	2005	2004	
Current Assets			
Cash, cash equivalents and short-term investments	\$233.3	\$185.7	\$ 47.6
Receivables, net	160.2	131.5	28.7
Inventories, net	169.5	193.4	(23.9)
Other current assets	29.9	23.6	6.3
Deferred income taxes	7.4	2.8	4.6
Total current assets	600.3	537.0	63.3
Current Liabilities			
Accounts payable	137.3	104.4	32.9
Accrued expenses	83.9	100.4	(16.5)
Income taxes payable	5.5	2.4	3.1
Accrued interest	0.6	1.2	(0.6)
Deferred income on sales to distributors	97.1	96.7	0.4
Current portion of long-term debt	73.9	20.0	53.9
Total current liabilities	398.3	325.1	73.2
Net working capital	\$202.0	\$211.9	\$ (9.9)

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The increase in cash, cash equivalents, and short-term investments of \$47.6 million in 2005 was attributable to cash flow from operations of approximately \$192.5 million, partially offset by cash used in investing activities, excluding short-term investment activity, of \$45.6 million and cash used in financing activities of \$99.6 million which was attributable to debt repayments (See “Key Financing Events” below).

The increase of \$28.7 million in accounts receivable is the result of increased sales in the last two months of the fourth quarter of 2005 as compared to the same period in 2004.

The decrease of \$23.9 million in inventory is attributable to sales levels exceeding production levels for the year. Inventory levels were a record low as of December 31, 2005. Based on the outlook for the first quarter of 2006, we anticipate relatively flat inventory levels at the end of the first quarter of 2006.

The increase of \$6.3 million in other current assets is a result of a \$3.0 million reclassification of the net book value of certain assets held-for-sale, which includes buildings located in Phoenix, Arizona and East Greenwich, Rhode Island that are currently being marketed for sale, and an increase of \$2.6 million in cash flow hedges, partially offset by a decrease of \$2.7 million in deferred compensation. The balance of the increase is related to miscellaneous prepaid expenses for IT projects in the United States.

The increase of \$32.9 million in accounts payable was mainly a result of the timing of payments at the respective year ends and an increase in fixed asset additions during the fourth quarter of 2005 of \$33.9 million, of which approximately \$22.3 million remained unpaid as of December 31, 2005, as compared to fixed asset additions of \$16.7 million in the fourth quarter of 2004.

The decrease in accrued expenses of \$16.5 million was primarily attributable to the settlement of the US pension liability of \$20.5 million attributable to our pension plan for U.S. employees and a decrease in the restructuring accrual of \$6.6 million, which was partially offset by an increase in the employee bonus accrual in the amount of \$10.4 million.

The increase in the current portion of long-term debt relates to the timing of payments under our debt instruments including \$26.0 million related to required payments under the free cash flow provision of our senior bank facilities. See Note 7 “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this report.

Long-Term Assets and Liabilities

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

Our manufacturing rationalization plans have included efforts to utilize our existing manufacturing assets and supply arrangements more efficiently. Accordingly, we reduced our capital expenditures during 2005. We do not expect that our capital expenditure reductions will have a negative impact on our ability to service our customers, as we believe that near-term access to additional manufacturing capacity, should it be required, could be readily obtained on reasonable terms through manufacturing agreements with third parties. Capital expenditures were \$46.1 million, \$81.8 million and \$59.8 million in 2005, 2004 and 2003, respectively. During 2003, there was an excess supply of used semiconductor production equipment in the marketplace, and we were able to purchase additional equipment at discounted prices. We will continue to look for opportunities to make similar strategic purchases in the future as we plan to invest approximately \$110 million in 2006 for additional capacity. Although our debt covenants contain certain restrictions that limit our amount of future capital expenditures, we do not believe that these restrictions will have a significant impact on our future operating performance.

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

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plans operate. This annual amount is dependent upon numerous actuarial assumptions. See Note 12 “Employee Benefit Plans” to our audited consolidated financial statements included elsewhere in this report. For further discussion of our tax reserves, see Note 8 “Income Taxes” to our audited consolidated financial statements included elsewhere in this report.

Key Financing Events

Overview

Set forth below is a summary of the key financing events affecting our capital structure during the last three years.

Since we became an independent company as a result of our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. Our long-term debt includes significant amounts under our senior bank facilities, which contain an EBITDA (as defined for such facilities) covenant with which we were in compliance as of December 31, 2005.

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

In November 2003, we further amended our senior bank facilities to, among other things, reduce the interest rate on our outstanding term loans by 0.75%. Also in November 2003, we exercised our option to extend the maturity of our \$20.0 million loan facility with a Chinese bank for an additional three years under the same terms and conditions. In December 2003, we prepaid approximately \$48.0 million of loans under our senior bank facilities with the proceeds from a new loan facility with a separate Chinese bank that bears interest at the London Interbank Offered Rate, or LIBOR, plus 1.5%.

In the first quarter of 2004, we used a portion of the net proceeds of the sale of approximately 34.4 million shares of our common stock at a public offering price of \$6.98 per share to redeem \$70 million principal amount of our first-lien senior secured notes due 2010 and \$105 million principal amount of our second-lien senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes plus accrued and unpaid interest to the redemption date. In connection with these prepayments we incurred \$21.0 million of premium payments. The remaining proceeds were used for general corporate purposes including the repayment of indebtedness. In connection with the offering we further amended our senior bank facilities to permit us to use the proceeds of such offering within 270 days of completion to purchase, redeem or retire a portion of our senior subordinated notes due 2009 and our first-lien senior secured notes and second-lien senior secured notes.

In April 2004, we issued \$260.0 million of zero coupon convertible senior subordinated notes and used the proceeds and cash and cash equivalents to repay \$260.0 million of our senior subordinated notes during the second and third quarters of 2004. We also further amended our senior bank facilities. See “April 2004 Offer to Repurchase Senior Subordinated Notes and Issuance of Zero Coupon Convertible Senior Subordinated Notes” below.

In December 2004, we refinanced the term loan portion of our senior bank facilities and increased our total term borrowings to \$645.5 million. Proceeds from the refinancing were used to prepay the remaining \$130.0 million principal outstanding of the first-lien senior secured notes due 2010 and the entire \$195.0 million principal outstanding of the second-lien senior secured notes due 2008. In connection with these prepayments we incurred \$67.2 million of premium payments.

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In November 2005, we repaid \$66.4 million of the principal amount outstanding under our junior subordinated note with cash on hand, and repaid the remaining principal balance of the note in December 2005 with the proceeds of the issuance of \$95.0 million of 1.875% convertible senior subordinated notes due 2025.

Also in November 2005, we entered into a Conversion and Termination Agreement with an affiliate of TPG to convert its preferred stock into approximately 49.4 million shares of our common stock. To induce the conversion, we issued approximately 3.9 million additional shares of our common stock to such affiliate of TPG. Following the conversion, none of the authorized shares of preferred stock remained outstanding. See Part II, Item 9B. "Other Information" of this report for the status of the Certificate of Designations for the Series A Cumulative Convertible Redeemable Preferred Stock.

As a result of these debt prepayments and refinancings, we reduced our total long-term debt balance (including the current portion) from \$1,302.9 million as of December 31, 2003 to \$1,067.0 million as of December 31, 2005. We also reduced our interest expense from \$151.1 million for the year ended December 31, 2003 to \$61.5 million for the year ended December 31, 2005. We also eliminated an 8% dividend on our preferred stock that totaled \$9.2 million in 2005.

The details of each of these financing events are outlined below.

March 2003 Issuance of First-Lien Senior Secured Notes and Amendment to Senior Bank Facilities

On March 3, 2003, we issued \$200.0 million aggregate principal amount of first-lien senior secured notes due 2010. The first-lien senior secured notes were issued at a price of 95.467% of par, bore interest at a rate of 12% per annum, payable semi-annually in cash, and had a maturity date of March 15, 2010.

In connection with the offering of the first-lien senior secured notes, we further amended our senior bank facilities to, among other things:

- permit the issuance of the first-lien senior secured notes;
- remove the requirement that we maintain certain minimum interest expense coverage ratios and the requirement not to exceed certain maximum leverage ratios;
- reduce to \$140.0 million our minimum EBITDA requirement for any four consecutive fiscal quarters;
- reduce our permitted capital expenditures to \$100.0 million per year (subject to certain increases for improved financial performance and carryovers from prior periods);
- permit the redemption of up to 35% of the senior secured first-lien notes out of the net proceeds of equity offerings; and
- convert \$62.5 million of the outstanding loans under our revolving credit facility into a new tranche of term loans.

We used \$180.9 million of net cash proceeds from the sale of the notes to prepay a portion of our senior bank facilities, \$25.0 million of which was used to repay borrowings under our revolving credit facility and permanently reduce the commitments thereunder to such amount. In connection with this refinancing, we wrote off \$3.5 million of debt issuance costs.

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

On September 23, 2003, we issued approximately 37.0 million shares of our common stock at a public offering price of \$4.50 per share. The net proceeds of the offering were \$156.8 million after deducting the underwriters' discount of \$8.2 million and offering expenses of \$1.4 million (after further evaluation we reversed

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the accrual for unpaid fees of \$0.4 million in 2004, which resulted in net proceeds of \$157.2 million). We used the net proceeds to prepay \$152.7 million of our senior bank facilities and to fund \$3.8 million of costs associated with our amendment to our senior bank facilities, as described below. In connection with this prepayment, we wrote off \$2.5 million of debt issuance costs.

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

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

The proceeds of the borrowing under the additional tranche D term loans (which were issued at a discount of \$0.5 million) were used to prepay senior credit facility borrowings as described above. Excluding this discount, costs incurred in connection with this debt refinancing totaled \$3.8 million, of which \$0.4 million was attributable to third-party costs. Such third-party costs were expensed as incurred and included in loss on debt prepayment in our consolidated statement of operations and comprehensive loss for the year ended December 31, 2003. The remaining \$3.4 million of debt refinancing costs were included in other assets in our consolidated balance sheet and are being amortized using the effective interest method.

November 2003 Amendment to Senior Bank Facilities and Loan Repricing

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

November 2003 Extension of Chinese Bank Loan

In November 2003, we exercised our ability to extend the maturity of our \$20.0 million loan facility with a Chinese bank for three years under the same terms and conditions thereby extending scheduled principal payments to \$10.5 million due in the fourth quarter of 2006 and \$9.5 million due in the first quarter of 2007. In March 2004, we amended the renewal provisions in the loan agreement to provide for three unconditional one-year renewal terms at our option.

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December 2003 Chinese Bank Loan

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

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

On February 9, 2004, we and our principal stockholder, Texas Pacific Group, completed a public offering of common stock pursuant to which we issued approximately 34.4 million shares at a public offering price of \$6.98 per share. The net proceeds to us from the offering were approximately \$227.9 million after deducting the underwriters' discount of \$10.8 million (\$0.3141 per share) and estimated offering expenses of \$2.2 million and \$0.3 million of bank amendment fees that were paid as of December 31, 2004. We used a portion of the net proceeds received by us to redeem \$70.0 million outstanding principal amount of our first-lien senior secured notes and \$105.0 million outstanding principal amount of our second-lien senior secured notes, in each case on March 10, 2004 at a redemption price of 112.0% of the principal amount of the notes to be redeemed, together with accrued interest to the redemption date. We used the remaining net proceeds for general corporate purposes. In connection with this redemption, we wrote off approximately \$12.0 million of debt issuance costs. We did not receive any of the proceeds from the sale of shares by TPG.

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

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

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

In April 2004, we commenced a cash tender offer for all of our outstanding 12% Senior Subordinated Notes due 2009. We redeemed \$260.0 million outstanding principal amount of our senior subordinated notes on October 1, 2004 and incurred costs of \$22.9 million resulting from tender offer fees, consent fees, redemption premiums, dealer manager fees and legal fees. In order to finance the cash tender offer, we issued \$260.0 million of zero coupon convertible senior subordinated notes due 2024 and used cash on hand. We received net proceeds of approximately \$251.2 million from the sale of the notes after deducting discounts and commissions and estimated offering expenses of \$8.8 million, which we capitalized as debt issuance costs and are amortizing using the effective interest method through the first put date of April 15, 2010. The notes do not bear cash interest, nor does the principal amount accrete. The effective interest rate of the notes resulting from the amortization of debt issuance costs is 0.58%. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by certain existing and future subsidiaries of the Company.

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Holders may convert the notes into approximately 26.5 million shares of our common stock at a conversion rate of 101.8849 shares per \$1,000 principal amount of notes before April 15, 2024 under the following circumstances: (1) during any fiscal quarter commencing after June 30, 2004 through maturity if the closing sale price of the Company's common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading-day period ending on the last trading day of the preceding fiscal quarter; (2) during the five business-day period after any five consecutive trading-day period in which the trading price per \$1,000 principal amount of notes for each day of that period was less than 98% of the product of the closing sale price of the Company's common stock and the conversion rate; (3) if the notes have been called for redemption; (4) after the date, if ever, on which either Moody's Investors Service, Inc. or Standard & Poor's Rating Services assigns an initial credit rating to the notes, during any period in which the credit rating assigned to the notes by either Moody's or S&P is three or more rating subcategories below the initial credit rating assigned by Moody's or S&P, as the case may be, or any period in which the notes are no longer rated by either Moody's or S&P, as the case may be, if such ratings agency had previously rated the notes; or (5) upon the occurrence of certain corporate events. Beginning April 15, 2010, we may redeem any of the notes at specified redemption prices. Holders may require us to repurchase the notes for cash on April 15 of 2010, 2014 and 2019. Upon the occurrence of certain corporate events, each holder may require us to purchase all or a portion of such holder's notes for cash at a price equal to the principal amount of such notes. The notes are subordinated in right of payment to all of our senior indebtedness. Upon conversion, the Company has the right to deliver cash in lieu of shares of the Company's common stock.

April 2004 Amendment to Senior Bank Facilities and Loan Repricing

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

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

December 2004 Amendment to Senior Bank Facilities and Repurchase of Senior Secured Notes

In December 2004, we refinanced the term loan portion of our senior bank facilities and increased our total borrowings under these facilities to \$645.5 million. We replaced \$320.5 million of the tranche F term loan facility with \$645.5 million of a tranche G term loan facility with terms, other than the interest rate and principal balance, that are largely identical to those of the tranche F term loan facility. Proceeds from the tranche G term loan facility were used to acquire \$130.0 million principal outstanding of our first-lien senior secured notes due 2010 and \$195.0 million principal outstanding of our second-lien senior secured notes due 2008. Principal payments under the tranche G term loan facility are paid quarterly at an annualized rate of 1% of the original principal balance, with the remaining principal due at maturity. The term loan portion of our credit facility

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expires December 15, 2009, however if the first date on which holders of at least \$210.0 million in aggregate principal amount of our zero coupon convertible senior subordinated notes due 2024 is extended (currently April 15, 2010), the term loan will mature on the date which is six months prior to the first date on which holders may exercise such "put" rights. In no event can the maturity date of the term loan be extended beyond December 15, 2011. We also increased the interest rate on our term loans by 0.25% per annum. Costs incurred in connection with this refinancing totaled \$2.4 million, of which \$1.9 million were expensed as incurred while the remaining \$0.5 million of such costs were capitalized and are being amortized using the effective interest method.

As discussed above, in December 2004 we used proceeds from the refinancing of our senior bank facilities to repurchase and retire all of our outstanding first-lien senior secured notes (at a redemption price of 123.5% of the principal amount of the notes that were redeemed) and second-lien senior secured notes (at a redemption price of 118.8%). Also in connection with this debt repurchase, we wrote off \$8.7 million of unamortized debt discounts, \$10.9 million of debt issuance costs and expensed \$0.2 million of third-party expenses in connection therewith.

Covenant Revisions in the Fourth Quarter of 2004

After meeting certain financial conditions during the fourth quarter of 2004, certain financial covenants were revised in our senior bank facilities to:

- increase the maximum amount of sales, transfers and other dispositions of assets during any fiscal year to \$50.0 million aggregate fair market value;
- permit acquisitions of up to \$50 million in equity interests of other companies;
- increase the maximum amount of other investments to \$100.0 million;
- remove the minimum cash and cash equivalents requirement; and
- allow payment of fees and expenses in cash to TPG in an aggregate amount not to exceed \$2.0 million in any fiscal year.

November 2005 Conversion of Redeemable Preferred Stock

On November 10, 2005, we entered into a Conversion and Termination Agreement with an affiliate of TPG to convert our outstanding convertible redeemable preferred stock held by such affiliate, with a book value of \$138.7 million and \$131.1 million as of September 30, 2005 and December 31, 2004, respectively, into 49,364,080 shares of our common stock. We issued an additional 3,949,126 shares of common stock to the TPG affiliate to induce the conversion of the preferred stock. Following the conversion, none of the authorized shares of the preferred stock remained outstanding. In connection with the conversion and inducement, we recognized a \$20.4 million charge that reduced net income applicable to common stock for a deemed dividend from the issuance of inducement shares issued upon conversion.

December 2005 Repayment of 10% Junior Subordinated Notes and Issuance of 1.875% Convertible Senior Subordinated Notes

As part of the recapitalization, Semiconductor Components Industries, LLC, our primary domestic operating subsidiary, issued a \$91.0 million junior subordinated note due 2011. During periods it was outstanding, the note bore interest at an annual rate of 10.0%, compounded semi-annually and payable at maturity. The note was junior in right of payment to all senior debt. In November 2005, we repaid \$66.4 million of the junior subordinated note with cash on hand, which reduced the outstanding principal amount to approximately \$91.0 million.

In order to finance the repayment of the remaining principal amount of the junior subordinated note, in December 2005 we issued \$95.0 million of 1.875% convertible senior subordinated notes due 2025. We received

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net proceeds of approximately \$91.0 million from the sale of the notes after deducting commissions and estimated offering expenses of \$4.0 million, which were capitalized as debt issuance costs and are being amortized using the effective interest method through the first put date of December 15, 2012. The notes bear interest at the rate of 1.875% per year from the date of issuance. Interest on the notes is payable on June 15 and December 15 of each year, beginning on June 15, 2006. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by certain of our existing and future subsidiaries.

The notes are convertible by holders into cash and shares of our common stock at a conversion rate of 142.8571 shares of common stock per \$1,000 principal amount of notes (subject to adjustment in certain events), which is equivalent to an initial conversion price of approximately \$7.00 per share of common stock. We will settle conversion of all notes validly tendered for conversion in cash and shares of our common stock, if applicable, subject to our right to pay the share amount in additional cash. Holders may convert their notes under the following circumstances: (i) during the five business-day period immediately following any five consecutive trading-day period in which the trading price per \$1,000 principal amount of notes for each day of such period was less than 103% of the product of the closing sale price of our common stock and the conversion rate; (ii) upon occurrence of the specified transactions described in the indenture relating to the notes; or (iii) after June 15, 2012.

The notes will mature on December 15, 2025. Beginning December 20, 2012, we may redeem the notes, in whole or in part, for cash at a price of 100% of the principal amount plus accrued and unpaid interest to, but excluding, the redemption date. If a holder elects to convert its notes in connection with the occurrence of specified fundamental changes that occur prior to December 15, 2012, the holder will be entitled to receive, in addition to cash and shares of common stock equal to the conversion rate, an additional number of shares of common stock, in each case as described in the indenture. Holders may require us to repurchase the notes for cash on December 15 of 2012, 2015 and 2020 at a repurchase price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest to but excluding the repurchase date. Upon the occurrence of certain corporate events, each holder may require us to purchase all or a portion of such holder's notes for cash at a price equal to the principal amount of such notes, plus accrued and unpaid interest to but excluding, the repurchase date.

The notes are our unsecured obligations, will be subordinated in right of payment to all of our existing and future senior indebtedness, will rank *pari passu* in right of payment with all of our existing and future senior subordinated indebtedness and will be senior in right of payment to all our existing and future subordinated obligations. The notes also will be effectively subordinated to any of our and our subsidiaries' secured indebtedness to the extent of the value of the assets securing such indebtedness.

January 2006 Amendment to Senior Bank Facilities

In January 2006, we refinanced the term loans under our senior bank facilities to reduce the interest rate from LIBOR plus 2.75% to LIBOR plus 2.50%. The amended and restated credit agreement also provides for a step down provision that would further reduce the interest rate to LIBOR plus 2.25% if we maintain a specified credit rating and meet a specified leverage ratio test that would first apply based on the 2005 results.

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Debt Instruments, Guarantees and Related Covenants

The following table presents the components of long-term debt as of December 31, 2005 and 2004 (dollars in millions):

	December 31, 2005	December 31, 2004
	(in millions)	
Senior Bank Facilities:		
Term Loan, interest payable quarterly at 7.1875% and 5.5625%, respectively	\$ 639.1	\$ 645.5
Revolver	—	—
	<u>639.1</u>	<u>645.5</u>
Zero Coupon Convertible Senior Subordinated Notes due 2024	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025	95.0	—
10% Junior Subordinated Note paid in 2005	—	154.2
2.25% Note payable to Japanese bank due 2006 through 2010, interest payable semi-annually	15.4	21.1
Loan with a Chinese bank due 2006 through 2007, interest payable quarterly at 5.867% and 4.55%, respectively	14.0	20.0
Loan with a Chinese bank due 2006 through 2013, interest payable semiannually at 6.167% and 4.25%, respectively	34.4	43.2
Capital lease obligations	9.1	7.8
	<u>1,067.0</u>	<u>1,151.8</u>
Less: Current maturities	(73.9)	(20.0)
	<u>\$ 993.1</u>	<u>\$ 1,131.8</u>

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

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

As of December 31, 2005, we were in compliance with the various covenants and other requirements contained in the credit agreement relating to our senior bank facilities and the indentures relating to our zero coupon convertible senior subordinated notes due 2024 and 1.875% convertible senior subordinated notes due 2025. We believe that we will be able to comply with the various covenants and other requirements contained in such credit agreement and the indentures through December 31, 2006.

The credit agreement relating to our senior bank facilities includes a provision requiring an annual calculation of cash flow (as defined) and the application of a portion of that cash flow as a prepayment of loans outstanding under the agreement. Included in the current portion of long-term debt as of December 31, 2005 was approximately \$26.0 million, which is the amount expected to be payable during the first quarter of 2006 under

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this provision. We are currently discussing with our lenders an amendment of this provision that would require prepayment only at the election of individual lenders; depending on the outcome of those discussions, the amount we pay to our lenders during 2006 under this provision may be reduced.

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

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

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

Cash Management

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

Accounting Changes

Effective December 31, 2005 we adopted FASB Interpretation No. 47 “Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143” (“FIN 47”). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 “Accounting for Asset Retirement Obligations” (“Statement 143”) refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. As a result of the adoption of FIN 47, we recorded a \$2.9 net charge for the cumulative effect of accounting change in 2005, and we recorded a \$4.0 million liability for asset retirement obligations, included in other long-term liabilities on our consolidated balance sheet.

During the second quarter of 2003, we changed our method of accounting for net unrecognized actuarial gains or losses relating to our defined benefit pension obligations. Historically, we amortized our net

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

The impact of this change for periods prior to January 1, 2003 was a charge of \$21.5 million or \$0.11 per share, both before and after income taxes, and has been reflected as the cumulative effect of a change in accounting principle in our consolidated statement of operations for 2003. The effect of the change in 2003 was to decrease the loss before cumulative effect of accounting change by \$7.3 million or \$0.04 per share, both before and after income taxes, and to increase the net loss by \$14.2 million or \$0.08 per share, both before and after income taxes. Absent the accounting change, the \$21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

Critical Accounting Policies and Estimates

The accompanying discussion and analysis of our financial condition and results of operations is based upon our audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. Note 3 "Significant Accounting Policies" of the notes to our audited consolidated financial statements included elsewhere in this report contains a detailed summary of our significant accounting policies. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. We utilize the following critical accounting policies in the preparation of our financial statements.

Revenue. We generate revenue from sales of our semiconductor products to original equipment manufacturers, electronic manufacturing service providers and distributors. We recognize revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the customer net of provisions for related sales returns and allowances. Title to products sold to distributors typically passes at the time of shipment by us so we record accounts receivable for the amount of the transaction, reduce our inventory for the products shipped and defer the related margin in our consolidated balance sheet. We recognize the related revenue and cost of revenues when the distributor informs us that they have resold the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

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

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

Inventories. We carry our inventories at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market and record provisions for slow moving inventories based upon a regular analysis of inventory on hand compared to historical and projected end user demand. Projected end user demand is generally based on sales during the prior 12 months. These provisions can influence our results from operations. For example, when demand falls for a given part, all or a portion of the related inventory is reserved, impacting our cost of revenues and gross profit. If demand recovers and the parts previously reserved are sold, we will generally recognize a higher than normal margin. However, the majority of product inventory that has been previously reserved is ultimately discarded. Although we do sell some products that have previously been

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written down, such sales have historically been relatively consistent on a quarterly basis and the related impact on our margins has not been material.

Deferred Tax Valuation Allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In determining the amount of the valuation allowance, we consider estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction in which we operate. If we determine that we will not realize all or a portion of our remaining deferred tax assets, we will increase our valuation allowance with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. In the fourth quarter of 2001, a valuation allowance was established for our domestic deferred tax assets and a portion of our foreign deferred tax assets. Additionally, throughout 2003, 2004 and 2005, no incremental domestic deferred tax benefits were recognized. As of December 31, 2005 and 2004, gross deferred tax assets were \$675.4 million and \$695.1 million, respectively, and the deferred tax asset valuation allowance was \$669.2 million and \$694.6 million, respectively. Our ability to utilize our deferred tax assets and the continuing need for a related valuation allowance are monitored on an ongoing basis.

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

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

Defined Benefit Plans. We maintain pension plans covering certain of our employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increase for plan employees. All of these assumptions are based upon management's judgment, considering all known trends and uncertainties. Actual results that differ from these assumptions impact the expense recognition and cash funding requirements of our pension plans. For example, as of December 31, 2005, a one percentage point change in the discount rate utilized to determine our continuing foreign pension liabilities and expense for our continuing foreign defined benefit plans would have impacted our results by approximately \$2.8 million.

Convertible Redeemable Preferred Stock. During the periods the convertible redeemable preferred stock was outstanding, we accounted for the difference between the carrying amount of the convertible redeemable preferred stock and the redemption value by increasing the carrying amount for periodic accretion so that the

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carrying amount would equal the redemption value at the earliest available redemption date. The periodic accretion amount changed as our stock price changed and as additional dividends accrued. Based on the average closing price of our common stock over the last 30 trading days preceding December 31, 2003 of \$6.19, the accretion charge, in respect to the redemption feature, for 2003 was \$0.5 million. We also recognized an additional accretion charge of \$1.8 million during the first quarter of 2004. However, due to declines in our stock price after the first quarter of 2004, the average closing price used in the accretion calculation at the end of each quarter was below the level that would result in accretion. The average closing price of our common stock over the last 30 trading days preceding December 31, 2004 was \$4.215. Therefore, the previously recognized accretion charges began to be reversed on a straight-line basis through September 7, 2009, unless future increases to our stock price required further accretion. During 2004, previously recognized accretion charges of \$0.3 million were reversed, resulting in net accretion charges of \$1.5 million during 2004. On November 10, 2005, we entered into a Conversion and Termination Agreement with TPG to convert the preferred stock into 49,364,080 shares of our common stock. During 2005, previously recognized accretion charges of \$1.0 million were reversed.

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

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

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs — An Amendment of ARB No. 43, Chapter 4”. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that “. . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges” SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal.” In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005 and shall be applied prospectively. We adopted the provisions of SFAS No. 151 during the quarter ended September 30, 2005. Our early adoption of SFAS No. 151 resulted in no impact to our financial condition or results of operations.

In March 2005, the FASB issued FIN 47 “Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143”. FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 “Accounting for Asset Retirement Obligations” (“Statement 143”) refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred — generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a

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conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. Statement 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Based on our evaluation of FIN 47, we recorded a \$2.9 net charge for the cumulative effect of accounting change upon adoption of FIN 47 in 2005, and recorded a \$4.0 million liability for asset retirement obligations, included in other long-term liabilities on our consolidated balance sheet. See *Note 4: Accounting Changes* for further discussion.

In April 2005, the Securities and Exchange Commission adopted a new rule that amends the compliance dates for FASB Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS No. 123R"). Under the new rule, SFAS No. 123R will become applicable to us beginning January 1, 2006. We plan to adopt SFAS No. 123R using the modified prospective application method as defined by SFAS No. 123R and accordingly will begin recognizing compensation expense in the first quarter of 2006. In 2005, we began using a lattice model to calculate the fair value of options granted, which will be used to determine stock compensation expense upon adoption of SFAS No. 123R (see *Note 3: Significant Accounting Policies* for further discussion). The adoption of SFAS No. 123R's fair value method will have an estimated impact of a \$2.0 million reduction to net income in the first quarter of 2006 and will have no impact on our overall financial position. See *Note 11: Stock Options* for further discussion. Due to the volatility of the price of our common stock and the uncertainty of future option grants to employees, we are unable to estimate this expense for periods subsequent to the first quarter of 2006.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — A Replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). The guidance in Opinion No. 20 required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires the retrospective application to prior periods' financial statements of voluntary changes in accounting principle, unless it is impracticable to do so. SFAS No. 154 is effective for fiscal periods beginning after December 15, 2005. Our adoption of the provisions of SFAS No. 154 is not expected to impact our financial condition or results of operations.

In June 2005 the FASB issued FASB Staff Position No. 143-1 "Accounting for Electronic Equipment Waste Obligations" ("FSP 143-1"). FSP 143-1 addresses the accounting for obligations associated with Directive 2002/96/EC on Waste Electrical and Electronic Equipment ("the Directive") which was adopted by the European Union. Under FSP 143-1, any waste management obligation associated with the disposal of an asset will remain with the user until the waste equipment is replaced. In the event that this occurs, the waste management obligation for that asset may be transferred to the producer of the replacement equipment, depending upon laws of the applicable European Union member country. The guidance in FSP 143-1 shall be applied the later of the first reporting period ending after June 8, 2005 or the date of the adoption of the law by the applicable EU-member country. Our adoption of the provisions of FSP 143-1 is not expected to impact our financial condition or results of operations.

In September 2005, the Emerging Issues Task Force reached consensus on EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty" ("Issue No. 04-13"). In certain situations, a company may enter into nonmonetary transactions to sell inventory to another company in the same line of business from which it also purchases inventory. Under Issue No. 04-13, in general, an entity is required to treat sales and purchases of inventory between the entity and the same counterparty as one transaction for purposes of applying APB Opinion No. 29, "Accounting for Nonmonetary Transactions" when such transactions are entered into in contemplation of each other. When such transactions are legally contingent on each other, they are considered to have been entered into in contemplation of each other. The EITF also agreed on other factors that should be considered in determining whether transactions have been entered into in contemplation of each

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other. Issue No. 04-13 will be effective for all new arrangements entered into in reporting periods beginning after March 15, 2006. Our adoption of the provisions of Issue No. 04-13 are not expected to impact our financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

At December 31, 2005, our long-term debt (including current maturities) totaled \$1,067.0 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled \$379.5 million. We do have interest rate exposure with respect to the \$687.5 million outstanding balance on our variable interest rate debt; however, from time to time, we have entered into interest rate swaps to reduce this exposure. As of December 31, 2005, we had interest rate swaps covering \$320 million of our variable interest rate debt. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next twelve months by approximately \$1.8 million. However, some of this impact would be offset by additional interest earned on our cash and cash equivalents as a result of the higher rates.

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

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

Item 8. Financial Statements and Supplementary Data

Our consolidated Financial Statements of the Company listed in the index appearing under Part IV, Item 15(a)(1) of this report and the Financial Statement Schedule listed in the index appearing under Part IV, Item 15(a)(2) of this report are filed as part of this report and are incorporated herein by reference in this Item 8.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

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

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processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Change in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control — Integrated Framework*. Based on our assessment using those criteria, we concluded that our internal control over financial reporting was effective as of December 31, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Part IV, Item 15 "Exhibits and Financial Statement Schedules" of this report.

Item 9B. Other Information

On November 10, 2005, we entered into a Conversion and Termination Agreement with TPG ON Holdings LLC, a Delaware limited liability company ("TPG ON"), an affiliate of TPG, our largest stockholder, to convert the preferred stock owned by TPG as provided for under the Certificate of Designations of Series A Cumulative Convertible Preferred Stock, as amended on June 15, 2004 ("Certificate of Designations"). Following such early conversion of TPG ON's preferred stock into our common stock, none of the authorized shares of our preferred stock remained outstanding. On February 17, 2006, our Board of Directors resolved, pursuant to Delaware General Corporation Law Section 151(g), that no series or class of the preferred stock will be issued under the Certificate of Designation and authorized the filing of a certificate of elimination for the Certificate of Designation with the Secretary of State of the State of Delaware. Upon the filing of this certificate of elimination, the former TPG ON shares of preferred stock became authorized but unissued and may be reissued as part of another series.

PART III**Item 10. Directors and Executive Officers of the Registrant**

Information concerning directors and persons nominated to become directors, and executive officers is incorporated by reference from the text under the captions, “Management Proposals — Proposal 1 — Election of Directors,” “The Board of Directors and Corporate Governance,” and “Section 16(a) Reporting Compliance” in our Proxy Statement for our May 17, 2006 Annual Meeting of Stockholders. Certain additional information concerning our executive officers as of February 10, 2006 is set forth below.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Keith D. Jackson	50	President and Chief Executive Officer*
William Bradford	42	Senior Vice President, Sales and Marketing*
Donald Colvin	52	Senior Vice President, Chief Financial Officer and Treasurer*
William George	63	Senior Vice President, Operations*
George H. Cave	48	Senior Vice President, General Counsel, Chief Compliance & Ethics Officer and Secretary*
Peter Green	54	Senior Vice President, Integrated Power Group*

* Executive Officers of both ON Semiconductor and Semiconductor Components Industries, LLC (“SCI, LLC”).

Keith D. Jackson. Mr. Jackson was appointed our President and Chief Executive Officer of ON Semiconductor and SCI, LLC and became a Director of ON Semiconductor in November 2002. Mr. Jackson has over 30 years of semiconductor industry experience. Before joining our company, he served as Executive Vice President and General Manager, Analog, Mixed Signal, and Configurable Products Group, beginning in 1998, and more recently, was selected to head the Integrated Circuits Group for Fairchild Semiconductor Corp. From 1996 to 1998, he served as President and member of the Board of Directors of Tritech Microelectronics in Singapore, a manufacturer of analog and mixed signal products. From 1986 to 1996, Mr. Jackson worked for National Semiconductor, most recently as Vice President and General Manager of the Analog and Mixed Signal division. He also held engineering positions at Texas Instruments, Incorporated from 1973 to 1986.

William Bradford. Mr. Bradford joined ON Semiconductor and SCI, LLC as Senior Vice President of Sales and Marketing, effective March 2002. He came from Cypress Semiconductor Corporation, a provider of high-performance integrated circuits for network infrastructure and access equipment. At Cypress Mr. Bradford served as the Vice President — European Sales & Marketing from 2001, as Senior Director of North American Sales — East from 1997 to 2000, and as Southeast Area Sales Manager from 1995 to 1996. Mr. Bradford was a Technical Sales Representative for Texas Instruments, Semiconductor Group from 1986 to 1991.

Donald Colvin. Mr. Colvin joined ON Semiconductor and SCI, LLC as the Senior Financial Director in March 2003. Effective April 2, 2003, he became the Senior Vice President, Chief Financial Officer and Treasurer. He came from Atmel Corporation, a manufacturer of advanced semiconductors, where he served as Vice President Finance and Chief Financial Officer, beginning in 1998. Mr. Colvin served as Chief Financial Officer of a subsidiary of Atmel from 1995-98. From 1985 to 1995, he held various positions with European Silicon Structures (ES2), most recently as Chief Financial Officer. He held various financial positions with Motorola Semiconductors Europe from 1977 to 1985. Mr. Colvin holds a B.A. in Economics and an M.B.A. from the University of Strathclyde, Scotland.

William George. Dr. George has served as Senior Vice President of Operations for ON Semiconductor and SCI, LLC since August 1999. He served as Corporate Vice President and Director of Manufacturing of Motorola’s Semiconductor Components Group from June 1997 until he assumed his current position. Prior to that time, Dr. George held several executive and management positions at Motorola, including Corporate Vice President and Director of Manufacturing of Motorola’s Semiconductor Products Sector. From 1991 to 1994, he

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served as Executive Vice President and Chief Operating Officer of Sematech, a consortium of leading semiconductor companies. He joined Motorola in 1968. From October 2005 to the present, Dr. George served on the Board of Directors of Silicon Image, Inc. From August 2005 to the present, Dr. George has also served on the Board of Directors of Ramtron International Corporation. From October 2003 until December 2004, Dr. George served as a Director of the Supervisory Board of Metron Technology N.V.

George H. Cave. Mr. Cave has served as our General Counsel and Assistant Secretary for ON Semiconductor and SCI, LLC since August 1999. He was subsequently elected Secretary in March 2000 and Vice President in May 2000. In May 2003, Mr. Cave became a Senior Vice President, and in August 2004, he was named Chief Compliance & Ethics Officer. Before his tenure with ON Semiconductor and SCI, LLC, he served for two years as the Regulatory Affairs Director for Motorola's Semiconductor Components Group in Geneva, Switzerland. Prior to that position, Mr. Cave was Senior Counsel in the Corporate Law Department of Motorola in Phoenix, Arizona for a period of five years.

Peter Green. Mr. Green joined SCI, LLC as our Vice President and General Manager of the Integrated Power Devices Division in April 2004. In January 2005, Mr. Green assumed the position of Senior Vice President, Integrated Power Group for ON Semiconductor and SCI, LLC. Prior to joining us, Mr. Green worked for Intel Corporation for 21 years, where he held several management positions, most recently as General Manager of Intel's Extended Computing Division. From 1977-1983, he was the Director of Marketing Programmable Products Division for Texas Instruments Corporation. From 1975 to 1977, Mr. Green was a Research Scientist Missile Guidance Systems for Plessey Allen Clark Research Center.

Effective January 3, 2006, Larry Sims left ON Semiconductor and resigned all of his positions with ON Semiconductor and SCI, LLC. Previous to leaving, Mr. Sims had been the Senior Vice President of the Analog Products Group for ON Semiconductor and SCI, LLC.

The present term of office for the officers named above will generally expire on the earliest of their retirement, resignation or removal. There is no family relationship among any such officers.

Code of Business Conduct

Information concerning our Code of Business Conduct is incorporated by reference from the text under the caption "The Board of Directors and Corporate Governance — Code of Business Conduct" in our Proxy Statement for our May 17, 2006 Annual Meeting of Stockholders.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated by reference from the text under the captions, "The Board of Directors and Corporate Governance — Compensation of Directors," "Compensation of Executive Officers," "Compensation Committee Report," "Performance Graph — Stock Price Performance," and "Compensation Committee Interlocks and Insider Participation" in our Proxy Statement for our May 17, 2006 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership of certain beneficial owners and management is incorporated by reference from the text under the captions "Principal Stockholders" and "Share Ownership of Directors and Officers" in our Proxy Statement for our May 17, 2006 Annual Meeting of Stockholders.

Information concerning equity compensation plans is incorporated by reference from the text under the caption "Equity Compensation Plan Table" in our Proxy Statement for our May 17, 2006 Annual Meeting of Stockholders.

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Item 13. *Certain Relationships and Related Transactions*

Information concerning certain relationships and related transactions involving us and certain others is incorporated by reference from the text under the captions, “Compensation of Executive Officers” and “Relationships and Related Transactions” in our Proxy Statement for our May 17, 2006 Annual Meeting of Stockholders.

Item 14. *Principal Accountant Fees and Services*

Information concerning principal accounting fees and services is incorporated by reference from the text under the caption “Management Proposals — Proposal 2 — Ratification of Appointment of Independent Registered Public Accounting Firm — Audit and Related Fees” in our Proxy Statement for our May 17, 2006 Annual Meeting of Stockholders.

PART IV**Item 15. Exhibits and Financial Statement Schedules**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Consolidated Financial Statements:

	Page
ON Semiconductor Corporation and Subsidiaries Consolidated Financial Statements:	
Report of Independent Registered Public Accounting Firm	83
Consolidated Balance Sheet as of December 31, 2005 and December 31, 2004	85
Consolidated Statement of Operations for the years ended December 31, 2005, 2004 and 2003	86
Consolidated Statement of Stockholders' Deficit for the years ended December 31, 2005, 2004 and 2003	87
Consolidated Statement of Cash Flows for the years ended December 31, 2005, 2004 and 2003	88
Notes to Consolidated Financial Statements	89

(2) Consolidated Financial Statement Schedule:

	Page
Schedule II — Valuation and Qualifying Accounts and Reserves	148

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or related notes.

(3) Exhibit Index:

EXHIBIT INDEX

Exhibit No.	Exhibit Description
2.1	Reorganization Agreement, dated as of May 11, 1999, among Motorola, Inc., SCG Holding Corporation and Semiconductor Components Industries LLC. (incorporated by reference from Exhibit 2.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
2.2	Agreement and Plan of Recapitalization and Merger, as amended, dated as of May 11, 1999, among SCG Holding Corporation, Semiconductor Components Industries, LLC, Motorola, Inc., TPG Semiconductor Holdings LLC, and TPG Semiconductor Acquisition Corp. (incorporated by reference from Exhibit 2.2 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
2.3	Amendment No. 1 to Agreement and Plan of Recapitalization and Merger, dated as of July 28, 1999, among SCG Holding Corporation, Semiconductor Components Industries, LLC, Motorola, Inc., TPG Semiconductor Holdings LLC, and TPG Semiconductor Acquisition Corp. (incorporated by reference from Exhibit 2.3 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
3.1(a)	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation as of August 1, 2002 (incorporated by reference from Exhibit 3.1(a) of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
3.1(b)	Certificate of Elimination of ON Semiconductor Corporation relating to the Certificate of Designations with respect to the Series A Cumulative Convertible Preferred Stock(1)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
3.2	Amended and Restated Bylaws of ON Semiconductor Corporation (incorporated by reference from Exhibit 3.2 to the Corporation's Form 10-K filed with the Commission on March 10, 2004)
4.1	Specimen of share certificate of Common Stock, par value \$.01, ON Semiconductor Corporation (incorporated by reference from Exhibit 4.1 to the Corporation's Form 10-K filed with the Commission on March 10, 2004)
4.2	Investment Agreement, dated as of September 7, 2001, between TPG ON Holdings LLC and ON Semiconductor Corporation (incorporated by reference from Exhibit 4.2 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.3(a)	Registration Rights Agreement, dated as of September 7, 2001, between TPG ON Holdings LLC and ON Semiconductor Corporation (incorporated by reference from Exhibit 4.3 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.3(b)	Amendment No. 1 to Registration Rights Agreement between TPG ON Holdings LLC and ON Semiconductor Corporation, dated December 27, 2005(1)
4.4	Subordination Agreement, dated as of September 7, 2001, by and between TPG ON Holdings LLC and ON Semiconductor Corporation, for the benefit of Senior Creditors (incorporated by reference from Exhibit 4.4 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.5	Exchange Offer and Registration Rights Agreement, dated August 4, 1999, Semiconductor Components Industries, LLC, SCG Holding Corporation, the subsidiary guarantors of SCG Holding Corporation (incorporated by reference from Exhibit 4.5 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.6	Indenture regarding Zero Coupon Convertible Senior Subordinated Notes due 2024 dated as of April 6, 2004, between ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., Semiconductor Components Industries of Rhode Island, Inc., SCG International Development LLC and Semiconductor Components Industries International of Rhode Island, Inc., as guarantors and Wells Fargo Bank, N.A., a national banking association, as trustee (incorporated by reference from Exhibit 4.1 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)
4.7	Form of Note for Zero Coupon Convertible Senior Subordinated Notes due 2024 (incorporated by reference from Exhibit 4.2 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)
4.8	Registration Rights Agreement for Zero Coupon Convertible Senior Subordinated Notes due 2024 dated as of April 6, 2004, between ON Semiconductor Corporation and Morgan Stanley & Co. Incorporated, Credit Suisse First Boston LLC and J.P. Morgan Securities Inc. (incorporated by reference from Exhibit 4.3 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)
4.9	Indenture regarding the 1.875% Convertible Senior Subordinated Notes due 2025, dated as of December 21, 2005, between ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SMG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., Semiconductor Components Industries of Rhode Island, Inc., SCG International Development LLC and Semiconductor Components Industries International of Rhode Island, Inc. as guarantors and Deutsche Bank Trust Company Americas, a New York banking corporation, as trustee (incorporated by reference from Exhibit 4.1 to the Corporation's Form 8-K filed with the Commission on December 27, 2005)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
4.10	Form of Note for the 1.875% Senior Subordinated Notes due 2025 between ON Semiconductor Corporation and Deutsche Bank Trust Company Americas (incorporated by reference from Exhibit 4.2 to the Corporation's Form 8-K filed with the Commission on December 27, 2005)
4.11	Registration Rights Agreement for the 1.875% Convertible Senior Subordinated Notes due 2025, dated as of December 21, 2005, between the ON Semiconductor Corporation and Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference from Exhibit 4.3 to the Corporation's Form 8-K filed with the Commission on December 27, 2005)
4.12	Conversion and Termination Agreement dated November 10, 2005, by and between ON Semiconductor Corporation and TPG ON Holdings LLC, to convert the Company's Series A Cumulative Preferred Stock owned by TPG into approximately 49 million shares of common stock (incorporated by reference from Exhibit 10.1 to the Corporation's Form 8-K filed with the Commission on November 15, 2005)
10.1(a)	Guarantee Agreement, dated as of August 4, 1999, among SCG Holding Corporation, the subsidiary guarantors of SCG Holding Corporation that are signatories thereto, and The Chase Manhattan Bank, as collateral agent (incorporated by reference from Exhibit 10.3 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.1(b)	Supplement No.1 dated as of April 3, 2000 to the Guarantee Agreement dated as of August 4, 1999, among SCG Holding Corporation, each of the subsidiaries listed on Schedule I thereto, and The Chase Manhattan Bank, as collateral agent(1)
10.2	Stock Purchase Agreement dated March 8, 2000 among Semiconductor Components Industries, LLC, SCG Holding Corporation and The Cherry Corporation (incorporated by reference from Exhibit 10.3 to Registration Statement No. 333-30670 filed with the Commission on April 7, 2000)
10.3	Amended and Restated Intellectual Property Agreement, dated August 4, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.5 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000)††
10.4	Employee Matters Agreements, as amended, dated July 30, 1999, among Semiconductor Components Industries, LLC, SCG Holding Corporation and Motorola, Inc. (incorporated by reference from Exhibit 10.7 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000)
10.5(a)	SCG Holding Corporation 1999 Founders Stock Option Plan (incorporated by reference from Exhibit 10.14 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.5(b)	Form of Stock Option Grant Agreement to 1999 Founders Stock Option Plan (incorporated by reference from Exhibit 10.9 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)(2)
10.6	Lease for 52nd Street property, dated July 31, 1999, among Semiconductor Components Industries, LLC as Lessor, and Motorola Inc. as Lessee (incorporated by reference from Exhibit 10.16 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.7	Declaration of Reciprocal Covenants, Easement of Restrictions and Options to Purchase and Lease, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.17 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.8(a)	Employment Agreement, dated as of October 27, 1999, between Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.21 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.8(b)	Amendment to Employment Agreement, dated as of October 1, 2001, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.20(b) to the Corporation's Form 10-K filed with the Commission on March 29, 2002)(2)
10.8(c)	Amendment to Employment Agreement, dated as of August 5, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.1 of Third Quarter 2003 Form 10-Q filed with the Commission on November 7, 2003)(2)
10.8(d)	Amendment to Employment Agreement with William George dated February 17, 2005 (incorporated by reference from Exhibit 10.1 to the Corporation's Form 8-K filed with the Commission on February 18, 2005)(2)
10.9	Non-qualified Stock Option Agreement (form of agreement for William George) (incorporated by reference from Exhibit 10.2 to the Corporation's Form 8-K filed with the Commission on February 18, 2005)(2)
10.10(a)	2000 Stock Incentive Plan as amended and restated May 19, 2004 (incorporated by reference from Exhibit 10.7 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)(2)
10.10(b)	2000 Stock Incentive Plan — non-qualified stock option agreement (incorporated by reference from Exhibit 10.35(d) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.10(c)	2000 Stock Incentive Plan — incentive stock option agreement (incorporated by reference from Exhibit 10.35(c) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.10(d)	2000 Stock Incentive Plan — ON Ownership program grant agreement (incorporated by reference from Exhibit 10.33(b) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.10(e)	Non-qualified Stock Option Agreement for Senior Vice Presidents and Above (form of agreement) (incorporated by reference from Exhibit 10.5 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)
10.10(f)	Performance Based Stock Option Agreement (Peter Green) dated as of February 10, 2005 (incorporated by reference from Exhibit 10.3 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)
10.10(g)	Performance Based Stock Option Agreement (Larry Sims) dated as of February 10, 2005 (incorporated by reference from Exhibit 10.4 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)
10.10(h)	Non-qualified Stock Option Agreement for Directors (form of standard agreement) (incorporated by reference from Exhibit 10.2 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)
10.10(i)	Non-qualified Stock Option Agreement for Directors (J. Daniel McCranie) dated as of February 10, 2005 (incorporated by reference from Exhibit 10.1 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.11	2000 Employee Stock Purchase Plan as amended and restated May 19, 2004 (incorporated by reference from Exhibit 10.8 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)(2)
10.12	ON Semiconductor 2002 Executive Incentive Plan (incorporated by reference from Exhibit 10.1 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)(2)
10.13	Employee Incentive Plan January 2002 (incorporated by reference from Exhibit 10.2 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)(2)
10.14(a)	Loan Facility Agreement, between Leshan-Phoenix Semiconductor Company Limited and Industrial & Commercial Bank of China, Leshan City Branch, for loan in an amount up to \$20 million, dated November 17, 2000 (incorporated by reference from Exhibit 10.1 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.14(b)	Letter for Loan Extension Application for a loan in an amount up to \$20 million, dated November 5, 2003, from Leshan-Phoenix Semiconductor Co. Ltd. to ICBC, Leshan City Branch (incorporated by reference from Exhibit 10.32(b) to the Corporation's Form 10-K filed with the Commission on March 10, 2004)
10.14(c)	Loans Renewal Agreement between Leshan Phoenix Semiconductor Co. Ltd. and Industrial and Commercial Bank of China, Leshan City Branch for a loan in an amount up to \$20 million, dated March 5, 2004 Branch (incorporated by reference from Exhibit 10.32(c) to the Corporation's Form 10-K filed with the Commission on March 10, 2004)
10.14(d)	Supplemental Loan Agreement between Leshan-Phoenix Semiconductor Company Limited and Industrial & Commercial Bank of China dated July 14, 2005, amending and supplementing a related Loan Facility Agreement dated November 17, 2000 (incorporated by reference from Exhibit 10.3 in the Corporation's Form 10-Q filed with the Commission on August 3, 2005)
10.15(a)	Loan Agreement between SCG Japan Ltd. and Development Bank of Japan, for loan in an amount up to \$26.1 million, dated October 27, 2000 (incorporated by reference from Exhibit 10.2 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.15(b)	Guaranty Agreement, executed by Semiconductor Components Industries, LLC on October 27, 2000, in connection with Loan Agreement between SCG Japan Ltd. and Development Bank of Japan, for loan in an amount up to \$26.1 million (incorporated by reference from Exhibit 10.3 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.16(a)	Employment Agreement effective as of March 28, 2002, between Semiconductor Components Industries, LLC and William Bradford (incorporated by reference from Exhibit 10.4 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.16(b)	Amendment No. 1 to Employment Agreement for William Bradford, executed on March 20, 2003, by and between Semiconductor Components Industries, LLC and William Bradford (incorporated by reference from Exhibit 10.39(b) to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.17	Joint Venture Contract for Leshan-Phoenix Semiconductor Company Limited, amended on November 5, 2004 between SCG (China) Holding Corporation and Leshan Radio Company Ltd. (incorporated by reference from Exhibit 10.27 of Fourth Quarter 2004 Form 10-K filed with the Commission on March 31, 2005)
10.18(a)	Employment Agreement, dated as of November 10, 2002, between ON Semiconductor Corporation and Keith Jackson (incorporated by reference from Exhibit 10.50(a) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.18(b)	Letter Agreement dated as of November 19, 2002, between ON Semiconductor Corporation and Keith Jackson (incorporated by reference from Exhibit 10.50(b) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.18(c)	Amendment No. 2 to Employment Agreement between ON Semiconductor Corporation and Keith Jackson dated as of March 21, 2003(1)(2)
10.18(d)	Amendment No. 3 to Employment Agreement between ON Semiconductor Corporation and Keith Jackson dated as of May 19, 2005 (incorporated by reference from Exhibit 10.1 in the Corporation's Form 10-Q filed with the Commission on August 3, 2005)(2)
10.18(e)	Amendment No. 4 to Employment Agreement between ON Semiconductor Corporation and Keith Jackson dated as of February 14, 2006 (incorporated by reference from Exhibit 10.1 in the Corporation's Form 8-K filed with the Commission on February 17, 2006)(2)
10.19(a)	Security Agreement dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and JPMorgan Chase Bank, as collateral agent for the Secured Parties (incorporated by reference from Exhibit 10.54 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.19(b)	Supplement No. 1, dated as of September 23, 2003, to the Security Agreement dated as of August 4, 1999 as amended and restated as of March 3, 2003, by and among Semiconductor Components Industries, LLC, the borrower, ON Semiconductor Corporation, and the subsidiary guarantors of ON Semiconductor that are signatories thereto, in favor of JPMorgan Chase Bank, as collateral agent for certain secured parties (incorporated by reference from Exhibit 10.5 of Third Quarter 2003 Form 10-Q filed with the Commission on November 7, 2003)
10.20(a)	Pledge Agreement, dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and JPMorgan Chase Bank, as collateral agent for the Secured Parties (incorporated by reference from Exhibit 10.55 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.20(b)	Amendment dated as of April 22, 2004 to (a) the Pledge Agreement dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC (the "Borrower"), ON Semiconductor Corporation ("Holdings"), and the subsidiaries of Holdings party thereto and JPMorgan Chase Bank ("JPMCB"), as collateral agent for the certain secured parties, and (b) the Security Agreement dated as of August 4, 1999, as amended and restated as of March 3, 2003, among the Borrower, Holdings, the subsidiaries of Holdings party thereto and JPMCB, as collateral agent (incorporated by reference from Exhibit 10.5 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)
10.21	Collateral Assignment dated as of August 4, 1999, as amended and restated as of March 3, 2003, between Semiconductor Components Industries, LLC and JPMorgan Chase Bank, as collateral agent for the Secured Parties, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 10.56 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.22	Employment Agreement, effective May 26, 2005, between Semiconductor Components Industries, LLC and Donald Colvin (incorporated by reference from Exhibit 10.1 to the Corporation's Form 8-K filed with the Commission on May 27, 2005)(2)
10.23	Letter Agreement relating to the employment of Peter Zdebel, dated as of March 31, 2003, by and between Semiconductor Components Industries, LLC and Peter Zdebel (incorporated by reference from Exhibit 10.58 to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.24	Amendment and Restatement Agreement, dated as of February 6, 2006 among ON Semiconductor Corporation (“Holdings”), Semiconductor Components Industries, LLC (“Borrower”), the lenders party hereto, and JPMorgan Chase Bank, N.A. as administrative agent, under the Credit Agreement dated as of August 4, 1999, as amended and restated as of December 23, 2004 and as amended as of November 4, 2005, among Holdings, the Borrower, the lenders party thereto, and the administrative agent(1)
10.25	Amended and Restated Credit Agreement, dated as of August 4, 1999, as amended and restated as of February 6, 2006, among ON Semiconductor Corporation, Semiconductor Component Industries, LLC, as borrower, the lenders party hereto, and JPMorgan Chase Bank, N.A. as administrative agent (Exhibit A to the Amendment and Restatement Agreement filed as Exhibit 10.24 hereto)(1)
10.26	Reaffirmation Agreement, dated as of February 6, 2006 among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, the subsidiary guarantors of ON Semiconductor that are signatories thereto, and JPMorgan Chase Bank, N.A. as administrative agent, issuing bank and collateral agent for the benefit of the lenders(1)
10.27(a)	Loan Agreement executed on December 12, 2003, between China Construction Bank Sichuan Branch and Leshan-Phoenix Semiconductor Company LTD, for a loan in an amount up to \$48 million Branch (incorporated by reference from Exhibit 10.56(a) to the Corporation’s Form 10-K filed with the Commission on March 10, 2004 and Form 10-K/A filed with the Commission on March 22, 2004)
10.27(b)	Amendment No. 1 to Loan Agreement between Leshan-Phoenix Semiconductor Company Limited and China Construction Bank dated as of July 27, 2005 (incorporated by reference from Exhibit 10.2 in the Corporation’s Form 10-Q filed with the Commission on August 3, 2005)
10.27(c)	Mortgage Agreement executed on December 12, 2003, between China Construction Bank, Sichuan Branch and Leshan-Phoenix Semiconductor Company Ltd. relating to the loan in an amount up to \$48 million Branch (incorporated by reference from Exhibit 10.32(c) to the Corporation’s Form 10-K filed with the Commission on March 10, 2004 and Form 10-K/A filed with the Commission on March 22, 2004)
10.27(d)	Confirmation for Extension of Tranche B Loan, in an amount up to \$24 million, dated as of January 3, 2004, from China Construction Bank, Sichuan Branch to Leshan-Phoenix Semiconductor Company Ltd. Branch (incorporated by reference from Exhibit 10.56(b) to the Corporation’s Form 10-K filed with the Commission on March 10, 2004 and Form 10-K/A filed with the Commission on March 22, 2004)
10.28	Employment Agreement, effective May 26, 2005, between Semiconductor Components Industries, LLC and George H. Cave (incorporated by reference from Exhibit 10.2 to the Corporation’s Form 8-K filed with the Commission on May 27, 2005)(2)
14	ON Semiconductor Corporation Code of Business Conduct effective as of September 19, 2005 (incorporated by reference from Exhibit 14 to the Corporation’s Form 8-K filed with the Commission on September 20, 2005)
21.1	List of Significant Subsidiaries(1)
23.1	Consent of Independent Registered Public Accounting Firm — PricewaterhouseCoopers LLP(1)
24.1	Powers of Attorney(1)
31.1	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
31.2	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
32	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)
99.1	Stockholders Agreement dated as of August 4, 1999 among SCG Holding Corporation, TPG Semiconductor Holdings, LLC and Motorola, Inc. (incorporated by reference from Exhibit 99.5 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)

(1) Filed herewith.

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

† Schedules or other attachments to these exhibits not filed herewith shall be furnished to the Commission upon request.

†† Portions of these exhibits have been omitted pursuant to a request for confidential treatment

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Of ON Semiconductor Corporation:

We have completed integrated audits of ON Semiconductor Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of ON Semiconductor Corporation and its subsidiaries at December 31, 2005 and December 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4 to the consolidated financial statements, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligation effective January 1, 2003.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona
February 22, 2006

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

	December 31,	
	2005	2004
Assets		
Cash and cash equivalents	\$ 233.3	\$ 105.7
Short-term investments	—	80.0
Receivables, net	160.2	131.5
Inventories, net	169.5	193.4
Other current assets	29.9	23.6
Deferred income taxes	7.4	2.8
Total current assets	600.3	537.0
Property, plant and equipment, net	438.5	472.0
Goodwill	77.3	77.3
Other assets	32.4	23.8
Total assets	\$ 1,148.5	\$ 1,110.1
Liabilities, Minority Interests, Redeemable Preferred Stock and Stockholders' Deficit		
Accounts payable	\$ 137.3	\$ 104.4
Accrued expenses	83.9	100.4
Income taxes payable	5.5	2.4
Accrued interest	0.6	1.2
Deferred income on sales to distributors	97.1	96.7
Current portion of long-term debt	73.9	20.0
Total current liabilities	398.3	325.1
Long-term debt	993.1	1,131.8
Other long-term liabilities	31.4	32.2
Deferred income taxes	1.2	2.3
Total liabilities	1,424.0	1,491.4
Commitments and contingencies (See Note 15)		
Minority interests in consolidated subsidiaries	24.8	25.4
Series A cumulative, convertible, redeemable preferred stock (\$0.01 par value 10,000 shares authorized, 0 and 10,000 shares issued and outstanding; 8% annual dividend rate; redemption value — \$0 and \$131.7) (See Note 9)	—	131.1
Common stock (\$0.01 par value, 500,000,000 shares authorized, 310,637,499 and 254,790,578 shares issued and outstanding)	3.1	2.5
Additional paid-in capital	1,252.7	1,116.0
Accumulated other comprehensive income	0.7	1.1
Accumulated deficit	(1,556.8)	(1,657.4)
Total stockholders' deficit	(300.3)	(537.8)
Total liabilities, minority interests, redeemable preferred stock and stockholders' deficit	\$ 1,148.5	\$ 1,110.1

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31,		
	2005	2004	2003
Revenues	\$1,260.6	\$1,266.9	\$1,069.1
Cost of revenues	842.1	857.0	768.4
Gross profit	418.5	409.9	300.7
Operating expenses:			
Research and development	93.7	94.4	85.5
Selling and marketing	79.3	73.8	63.0
General and administrative	74.6	72.2	69.2
Amortization of goodwill and intangibles	—	—	5.9
Restructuring, asset impairments and other, net	3.3	19.6	61.2
Total operating expenses	250.9	260.0	284.8
Operating income	167.6	149.9	15.9
Other income (expenses), net:			
Interest expense	(61.5)	(101.2)	(151.1)
Interest income	5.5	2.2	2.0
Other	(3.0)	(4.2)	4.6
Loss on debt prepayment	—	(159.7)	(7.7)
Other income (expenses), net	(59.0)	(262.9)	(152.2)
Income (loss) before income taxes, minority interests and cumulative effect of accounting change	108.6	(113.0)	(136.3)
Income tax provision	(1.5)	(7.4)	(7.7)
Minority interests	(3.6)	(3.3)	(1.2)
Income (loss) before cumulative effect of accounting change	103.5	(123.7)	(145.2)
Cumulative effect of accounting change (net of income taxes of \$0.3 million in 2005 and \$0 in 2003)	(2.9)	—	(21.5)
Net income (loss)	100.6	(123.7)	(166.7)
Less: Accretion to redemption value of convertible redeemable preferred stock	1.0	(1.5)	(0.5)
Less: Convertible redeemable preferred stock dividends	(9.2)	(9.9)	(9.2)
Less: Dividend from inducement shares issued upon conversion of convertible redeemable preferred stock	(20.4)	—	—
Less: Allocation of undistributed earnings to preferred shareholders	(9.7)	—	—
Net income (loss) applicable to common stock	\$ 62.3	\$ (135.1)	\$ (176.4)
Income (loss) per common share:			
Basic:			
Net income (loss) applicable to common stock before cumulative effect of accounting change	\$ 0.25	\$ (0.55)	\$ (0.83)
Cumulative effect of accounting change	(0.01)	—	(0.11)
Net income (loss) applicable to common stock	\$ 0.24	\$ (0.55)	\$ (0.94)
Diluted:			
Net income (loss) applicable to common stock before cumulative effect of accounting change	\$ 0.22	\$ (0.55)	\$ (0.83)
Cumulative effect of accounting change	(0.01)	—	(0.11)
Net income (loss) applicable to common stock	\$ 0.21	\$ (0.55)	\$ (0.94)
Weighted average common shares outstanding:			
Basic	263.3	247.8	187.4
Diluted	296.8	247.8	187.4

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
(in millions, except share data)

	Common Stock		Additional Paid - In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Number of Shares	At Par Value				
Balances at December 31, 2002	176,439,900	\$ 1.8	\$ 737.4	\$ (34.3)	\$ (1,367.0)	\$(662.1)
Issuance of common stock, net of issuance costs	36,996,000	0.4	156.4	—	—	156.8
Stock option exercises	1,924,030	—	4.2	—	—	4.2
Tax benefit of stock option exercises	—	—	0.3	—	—	0.3
Stock compensation expense	—	—	0.1	—	—	0.1
Redeemable preferred stock dividends	—	—	(9.2)	—	—	(9.2)
Accretion to redemption value of convertible redeemable preferred stock	—	—	(0.5)	—	—	(0.5)
Shares issued under the employee stock purchase plan	689,963	—	1.2	—	—	1.2
Warrant exercises	1,250,000	—	1.4	—	—	1.4
Comprehensive income (loss), net of tax:						
Net loss	—	—	—	—	(166.7)	(166.7)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	3.7	—	3.7
Additional minimum pension liability adjustment	—	—	—	19.6	—	19.6
Unrealized losses on deferred compensation plan investments	—	—	—	(0.2)	—	(0.2)
Effects of cash flow hedges	—	—	—	6.8	—	6.8
Other comprehensive income (loss), net of tax:	—	—	—	29.9	—	29.9
Comprehensive loss	—	—	—	—	—	(136.8)
Balances at December 31, 2003	217,299,893	2.2	891.3	(4.4)	(1,533.7)	(644.6)
Issuance of common stock, net of issuance costs	34,368,936	0.3	228.1	—	—	228.4
Stock option exercises	2,576,911	—	5.9	—	—	5.9
Stock compensation expense	—	—	0.2	—	—	0.2
Redeemable preferred stock dividends	—	—	(9.9)	—	—	(9.9)
Accretion to redemption value of convertible redeemable preferred stock	—	—	(1.5)	—	—	(1.5)
Shares issued under the employee stock purchase plan	544,838	—	1.9	—	—	1.9
Comprehensive income (loss), net of tax:						
Net loss	—	—	—	—	(123.7)	(123.7)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	0.5	—	0.5
Unrealized losses on deferred compensation plan investments	—	—	—	0.2	—	0.2
Effects of cash flow hedges	—	—	—	4.8	—	4.8
Other comprehensive income (loss), net of tax:	—	—	—	5.5	—	5.5
Comprehensive loss	—	—	—	—	—	(118.2)
Balances at December 31, 2004	254,790,578	2.5	1,116.0	1.1	(1,657.4)	(537.8)
Issuance of shares from conversion of preferred stock	49,364,080	0.5	138.7	—	—	139.2
Issuance of shares for inducement of preferred stock conversion, net of issuance costs	3,949,126	0.1	20.1	—	—	20.2
Deemed dividend from induced conversion of preferred stock	—	—	(20.4)	—	—	(20.4)
Stock option exercises	2,055,270	—	4.5	—	—	4.5
Redeemable preferred stock dividends	—	—	(9.2)	—	—	(9.2)
Accretion to redemption value of convertible redeemable preferred stock	—	—	1.0	—	—	1.0
Shares issued under the employee stock purchase plan	478,445	—	1.8	—	—	1.8
Other	—	—	0.2	—	—	0.2
Comprehensive income, net of tax:						
Net income	—	—	—	—	100.6	100.6
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	(4.7)	—	(4.7)
Unrealized losses on deferred compensation plan investments	—	—	—	0.5	—	0.5
Effects of cash flow hedges	—	—	—	3.8	—	3.8
Other comprehensive income (loss), net of tax:	—	—	—	(0.4)	—	(0.4)
Comprehensive income	—	—	—	—	—	100.2
Balances at December 31, 2005	310,637,499	\$ 3.1	\$ 1,252.7	\$ 0.7	\$ (1,556.8)	\$(300.3)

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	\$ 100.6	\$ (123.7)	\$(166.7)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	99.0	102.1	127.8
Cumulative effect of accounting change	3.2	—	21.5
(Gain) loss on sale and disposal of fixed assets	0.8	12.8	(2.8)
Non-cash portion of loss on debt prepayment	—	45.7	6.1
Amortization of debt issuance costs and debt discount	1.7	7.3	8.7
Provision for excess inventories	13.2	11.1	13.0
Non-cash impairment of property, plant and equipment	—	3.3	30.7
Non-cash impairment of intangible and other assets	—	—	25.1
Non-cash interest on junior subordinated note payable	9.1	14.3	13.0
Deferred income taxes	(5.7)	3.5	0.3
Stock compensation expense	—	0.2	0.1
Other	5.1	3.4	3.4
Changes in assets and liabilities:			
Receivables	(35.4)	4.8	(20.8)
Inventories	10.6	(32.9)	(21.0)
Other assets	(6.2)	2.2	5.2
Accounts payable	11.6	(11.1)	41.3
Accrued expenses	(13.4)	(1.0)	(14.8)
Income taxes payable	3.2	0.7	(0.1)
Accrued interest	(0.6)	(24.1)	(18.3)
Deferred income on sales to distributors	0.4	30.5	(4.6)
Other long-term liabilities	(4.1)	(10.7)	(1.4)
Net cash provided by operating activities	193.1	38.4	45.7
Cash flows from investing activities:			
Purchases of property, plant and equipment	(46.1)	(81.8)	(59.8)
Deposits utilized (funds deposited) for purchases of property, plant and equipment	(1.7)	6.4	(6.8)
Purchases of held-to-maturity securities	(2.1)	(40.8)	—
Purchases of available-for-sale securities	(16.1)	(261.9)	—
Proceeds from sales of held-to-maturity securities	35.3	8.8	—
Proceeds from sales of available-for-sale securities	63.9	214.3	—
Proceeds from sales of property, plant and equipment	2.2	4.4	13.2
Other	(0.6)	—	(1.8)
Net cash provided by (used in) investing activities	34.8	(150.6)	(55.2)
Cash flows from financing activities:			
Proceeds from debt issuance, net of discount of \$9.1 million in 2003	95.0	905.5	338.4
Proceeds from issuance of common stock under the employee stock purchase plan	1.8	1.9	1.2
Proceeds from exercise of stock options and warrants	4.5	5.9	5.6
Dividend to minority shareholder of consolidated subsidiary	(4.2)	(4.2)	—
Proceeds from issuance of common stock, net of issuance costs	—	228.2	157.2
Payment of costs to issue common stock	(0.3)	—	—
Payment of capital lease obligation	(4.9)	(6.2)	(0.2)
Payment of debt issuance and amendment costs	(3.4)	(11.0)	(15.3)
Repayment of long-term debt	(188.1)	(1,088.7)	(482.5)
Net cash provided by (used in) financing activities	(99.6)	31.4	4.4
Effect of exchange rate changes on cash and cash equivalents	(0.7)	(0.1)	1.3
Net increase (decrease) in cash and cash equivalents	127.6	(80.9)	(3.8)
Cash and cash equivalents, beginning of period	105.7	186.6	190.4
Cash and cash equivalents, end of period	\$ 233.3	\$ 105.7	\$ 186.6

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

ON Semiconductor Corporation, together with its wholly and majority-owned subsidiaries (the “Company”), is a global supplier of power and data management semiconductors and standard semiconductor components. Formerly known as the Semiconductor Components Group of the Semiconductor Products Sector of Motorola, Inc., the Company was a wholly-owned subsidiary of Motorola Inc. (“Motorola”) prior to its August 4, 1999 recapitalization (the “recapitalization”). The Company continues to hold, through direct and indirect subsidiaries, substantially all the assets and operations of the Semiconductor Components Group of Motorola’s Semiconductor Products Sector.

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

Note 2: Liquidity

During the year ended December 31, 2005, the Company had net income of \$100.6 million compared to net losses of \$123.7 million and \$166.7 million in 2004 and 2003, respectively. The Company’s 2005, 2004 and 2003 net results included restructuring, asset impairments and other, net of \$3.3 million, \$19.6 million, and \$61.2 million, respectively, and loss on debt prepayment of \$159.7 million, and \$7.7 million in 2004 and 2003, respectively, as well as interest expense of \$61.5 million, \$101.2 million, and \$151.1 million in 2005, 2004 and 2003, respectively. The Company’s operating activities provided cash of \$193.1 million in 2005, \$38.4 million in 2004 and \$45.7 million in 2003.

At December 31, 2005, the Company had \$233.3 million in cash and cash equivalents, net working capital of \$202.0 million, term or revolving debt of \$1,067.0 million and a stockholders’ deficit of \$300.3 million. The Company’s long-term debt includes \$639.1 million under its senior bank facilities; \$260.0 million of zero coupon convertible senior subordinated notes due 2024; \$95.0 million under a 1.875% senior subordinated note due 2025; \$34.4 million under a loan facility with a Chinese bank due 2006 through 2013; \$15.4 million under a note payable to a Japanese bank due 2006 through 2010; \$14.0 million under a loan facility with a Chinese bank due 2006 through 2007; and \$9.1 million under capital lease obligations. The Company was in compliance with all of the covenants contained in its various debt agreements at December 31, 2005 and expects to remain in compliance over the next twelve months.

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

If the Company fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to the Company. Management believes that cash flow from operating activities coupled with the existing cash and cash equivalents balance will be adequate to fund the Company’s operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2006. To the extent that results or events differ from the Company’s financial projections or business plans, its liquidity may be adversely impacted.

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

Note 3: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, as well as its wholly-owned and majority-owned subsidiaries. Investments in companies that represent less than 20% of the related voting stock are accounted for on the cost basis. All intercompany accounts and transactions have been eliminated.

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

Use of Estimates

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

Cash and cash equivalents

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

Short-Term Investments

Short-term investments have an original maturity between three months and one year and a remaining maturity of less than 1 year, with the exception of auction rate securities which have a maturity of greater than 5 years, and are classified as either held-to-maturity or available-for-sale. Held-to-maturity securities are stated at amortized cost as it is the intent of the Company to hold these securities until maturity. Available-for-sale securities are recorded at fair value and are classified as current assets due to the Company’s intent and practice to hold these readily marketable investments for less than one year. Any unrealized holding gains and losses related to available-for-sale securities are recorded, net of tax, as a separate component of accumulated other comprehensive income. When a decline in fair value is determined to be other than temporary, unrealized losses on available-for-sale securities are charged against net earnings. Realized gains and losses are accounted for on

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

the specific identification method. Short-term investments classified as held-to-maturity and available-for-sale as of December 31, 2004 were as follows (in millions):

	<u>Amortized Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Short-term investments-held-to-maturity				
Municipal bonds	\$ 1.0	\$ —	\$ —	\$ 1.0
Corporate bonds	11.8	—	—	11.8
U.S. Government agencies	19.6	—	(0.1)	19.5
	<u>32.4</u>	<u>—</u>	<u>(0.1)</u>	<u>32.3</u>
Short-term investments-available-for-sale				
Auction-rate preferred securities	47.6	—	—	47.6
	<u>\$ 80.0</u>	<u>\$ —</u>	<u>\$ (0.1)</u>	<u>\$79.9</u>

Allowance for Doubtful Accounts

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

Approximately 19% of the Company's total revenues are attributable to its various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation ("Delphi"), one of the Company's automotive customers, and certain of Delphi's U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the year ended December 31, 2005, the Company's revenues from Delphi accounted for less than 3% of its total annual revenues and approximately \$5.4 million of its receivables due from Delphi as of December 31, 2005 are subject to collection pending resolution of the reorganization proceedings.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated over estimated useful lives of 30-40 years for buildings and 3-20 years for machinery and equipment using accelerated and straight-line methods. A majority of the machinery and equipment currently in use is depreciated on a straight-line basis over a useful life

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

of 5 years. Expenditures for maintenance and repairs are charged to operations in the year in which the expense is incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized.

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

The Company plans to sell approximately 42 acres of land and three buildings located at its corporate headquarters in Phoenix, Arizona, as well as one of its two buildings at its East Greenwich, Rhode Island facility. The remainder of the Phoenix site will continue as the Company's corporate headquarters as well as a manufacturing, design center and research and development facility. The remaining building in Rhode Island will continue as a research and development facility. The property and buildings are currently being marketed for sale with a list price of between \$24 million and \$27 million. The net book value of the land and buildings of \$3.0 million has been classified as held for sale and included in other current assets as of December 31, 2005.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the Company's April 2000 acquisition of Cherry Semiconductor Corporation (Cherry). The Cherry goodwill was being amortized on a straight-line basis over its estimated useful life of ten years until January 1, 2002 when the Company adopted Statement of Financial Accounting Standards ("SFAS") 142, "Goodwill and Other Intangible Assets." The Company also acquired another intangible asset in the Cherry acquisition that was being amortized on a straight-line basis over its estimated useful life. In the second quarter of 2003, that intangible asset was determined to be impaired and was written-off. See Note 5 "Restructuring, Asset Impairments and Other, net".

Under SFAS No. 142, goodwill is evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The Company performs its annual impairment analysis as of the first day of the fourth quarter of each year.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the term of the underlying agreements using the effective interest method. Upon prepayment of debt, the related unamortized debt issuance costs are charged to

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expense (see Note 7 “Long-Term Debt” *Loss on Debt Prepayment*). Amortization of debt issuance costs is included in interest expense while the unamortized balance is included in other assets. Capitalized debt issuance costs totaled \$11.4 million and \$8.9 million at December 31, 2005 and 2004, respectively.

Revenue Recognition

The Company generates revenue from sales of its semiconductor products to original equipment manufacturers, electronic manufacturing service providers, and distributors. The Company recognizes revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the end customer net of provisions for related sales returns and allowances. Title to products sold to distributors typically passes at the time of shipment by the Company so the Company records accounts receivable for the amount of the transaction, reduces its inventory for the products shipped and defers the related margin in the consolidated balance sheet. The Company recognizes the related revenue and margin when the distributor informs the Company that they have resold the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days. Freight and handling costs are included in cost of revenues and are recognized as period expense during the period in which they are incurred.

Research and Development Costs

Research and development costs are expensed as incurred.

Stock-Based Compensation

The Company accounts for employee stock options relating to its common stock in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations (“APB 25”) and provides the pro forma disclosures required by SFAS No. 123 “Accounting for Stock Based Compensation” (“SFAS No. 123”). The Company measures compensation expense relating to non-employee stock awards in accordance with SFAS No. 123.

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company’s net income (loss) for 2005, 2004, and 2003 would have been adjusted to the pro forma amounts indicated below (in millions except per share data):

	Year Ended December 31,		
	2005	2004	2003
Net income (loss), as reported	\$100.6	\$(123.7)	\$(166.7)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	—	0.2	0.1
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects (1)	(20.8)	(17.9)	(15.1)
Pro-forma net income (loss)	79.8	(141.4)	(181.7)
Less: Accretion to redemption value of convertible redeemable preferred stock	1.0	(1.5)	(0.5)
Less: Convertible redeemable preferred stock dividends	(9.2)	(9.9)	(9.2)
Less: Dividend from inducement shares issued upon conversion of convertible redeemable preferred stock	(20.4)	—	—
Less: Allocation of undistributed earnings to preferred shareholders	(6.9)	—	—
Net income (loss) applicable to common stock	\$ 44.3	\$(152.8)	\$(191.4)

(1) Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects for the year ended December 31, 2005 includes the impact from the November 16, 2005 acceleration of vesting of certain stock options. See “Note 11: Stock Options” *Acceleration of Stock Options* for further discussion.

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	Year Ended December 31,		
	2005	2004	2003
Income (loss) per share:			
Basic — as reported	\$0.24	\$(0.55)	\$(0.94)
Basic — pro-forma	\$0.17	\$(0.62)	\$(1.02)
Diluted — as reported	\$0.21	\$(0.55)	\$(0.94)
Diluted — pro-forma	\$0.15	\$(0.62)	\$(1.02)

The fair value of option grants during the respective period has been estimated at the date of grant while the fair value of the discount on the shares sold under the ON Semiconductor 2000 Employee Stock Purchase Plan has been estimated at the beginning of the respective offering periods.

The fair value of each option grant in 2005 has been calculated using a lattice model. In past years, the Company has used the Black-Scholes option-pricing model to calculate the fair value of its options. The lattice model uses: 1) an implied volatility curve derived using a regression analysis instead of a single volatility assumption as used in the Black-Scholes model; 2) an employee exercise behavior model (based on an analysis of historical exercise behavior); and 3) the treasury yield curve to calculate the fair value of each option grant. The weighted-average Black-Scholes equivalent assumptions for the year ended December 31, 2005, and the weighted average actual assumptions for the years ended December 31, 2004 and 2003, are detailed below:

Employee Stock Options	2005	2004	2003
Expected life (in years)	3.81	5.00	5.00
Risk-free interest rate	3.68%	3.29%	3.07%
Volatility	0.59	0.70	0.78

The fair value of the discount on Employee Stock Purchase Plan shares issued in 2005 has been calculated using the Black-Scholes option-pricing model with the weighted-average assumptions detailed below:

Employee Stock Purchase Plan	2005	2004	2003
Expected life (in years)	0.25	0.25	0.25
Risk-free interest rate	2.94%	1.27%	1.07%
Volatility	0.56	0.65	0.83

The weighted-average estimated fair value of employee stock options granted during 2005, 2004 and 2003 was \$2.25, \$3.88 and \$1.50 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during 2005, 2004 and 2003 was \$1.11, \$1.32 and \$0.62, respectively. See "Recent Accounting Pronouncements," below for further discussion on stock-based employee compensation.

Income Taxes

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

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

The Company did not utilize the one-time favorable foreign dividend provision recently enacted as part of the American Jobs Creation Act of 2004.

Foreign Currencies

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

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

Defined Benefit Plans

The Company maintains pension plans covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increases for plan employees. All of these assumptions are based upon management's judgment and consultation with an actuary, considering all known trends and uncertainties. As described in Note 4, "Accounting Changes," the Company changed its method of accounting for net unrecognized actuarial gains or losses relating to its defined benefit pension obligations effective January 1, 2003.

Convertible Redeemable Preferred Stock

On November 10, 2005, the Company entered into a Conversion and Termination Agreement with TPG to convert the Series A Cumulative Convertible Redeemable Preferred Stock into 49.4 million shares of its common stock (see Note 9: Redeemable Preferred Stock for further discussion). During the periods the convertible redeemable preferred stock was outstanding, the Company accounted for the difference between the carrying amount of its convertible redeemable preferred stock and the redemption value by increasing the carrying amount for periodic accretion so that the carrying amount would equal the redemption value at the earliest available redemption date. The periodic accretion amount changed as the Company's stock price changed and as additional dividends accrued. Based on the average closing price of the Company's common stock over the last 30 trading days preceding December 31, 2003 of \$6.19, the accretion charge, in respect to the redemption feature, for 2003 was \$0.5 million. The Company also recognized an additional accretion charge of \$1.8 million during the first quarter of 2004. However, due to declines in the Company's stock price after the first quarter of 2004, the average closing price used in the accretion calculation at the end of each quarter was below the level that would result in accretion. The average closing price of the Company's common stock over the last 30 trading days preceding December 31, 2004 was \$4.215. Therefore, the previously recognized accretion charges began to be

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reversed on a straight-line basis through September 7, 2009, unless future increases to the Company's stock price required further accretion. During 2004, previously recognized accretion charges of \$0.3 million were reversed, resulting in net accretion charges of \$1.5 million during 2004. During 2005, previously recognized accretion charges of \$1.0 million were reversed as a result of the conversion.

Asset Retirement Obligations

The Company recognizes asset retirement obligations (AROs) when incurred, with the initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. In addition, asset retirement costs are capitalized as part of the related asset's carrying value and are depreciated over the asset's respective useful life. The weighted average discount rate used to determine the liability as of December 31, 2005 was 6.1%. The Company's AROs consist primarily of estimated decontamination costs associated with manufacturing equipment and buildings resulting from the Company's adoption of FIN 47 in 2005. See *Recent Accounting Pronouncements* below for further discussion of FIN 47.

Contingencies

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

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs — An Amendment of ARB No. 43, Chapter 4". SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges . . ." SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005 and shall be applied prospectively. The Company adopted the provisions of SFAS No. 151 during the quarter ended September 30, 2005. The Company's adoption of SFAS No. 151 resulted in no impact to the Company's financial condition or results of operations.

In March 2005, the FASB issued FASB Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 "Accounting for Asset Retirement Obligations" ("Statement 143") refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred — generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. Statement 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset

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retirement obligation. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Based on the Company's evaluation of FIN 47, the Company recorded a \$2.9 million charge for the cumulative effect of accounting change (net of taxes of \$0.3 million) upon adoption of FIN 47 in 2005, and recorded a \$4.0 million liability for asset retirement obligations, included in other long-term liabilities on the Company's consolidated balance sheet. See *Note 4: Accounting Changes* for further discussion.

In April 2005, the Securities and Exchange Commission adopted a new rule that amends the compliance dates for FASB Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS No. 123R"). Under the new rule, SFAS No. 123R will become applicable to the Company beginning January 1, 2006. The Company plans to adopt SFAS No. 123R using the modified prospective application method as defined by SFAS No. 123R and accordingly will begin recognizing compensation expense in the first quarter of 2006. In 2005, the Company began using a lattice model to calculate the fair value of options granted, which will be used to determine stock compensation expense upon adoption of SFAS No. 123R. See *Note 11: Stock Options* for further discussion.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — A Replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). The guidance in Opinion No. 20 required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires the retrospective application to prior periods' financial statements of voluntary changes in accounting principle, unless it is impracticable to do so. SFAS No. 154 is effective for fiscal periods beginning after December 15, 2005. The Company's adoption of the provisions of SFAS No. 154 is not expected to impact its financial condition or results of operations.

In June 2005 the FASB issued FASB Staff Position No. 143-1 "Accounting for Electronic Equipment Waste Obligations" ("FSP 143-1"). FSP 143-1 addresses the accounting for obligations associated with Directive 2002/96/EC on Waste Electrical and Electronic Equipment ("the Directive") which was adopted by the European Union. Under FSP 143-1, any waste management obligation associated with the disposal of an asset will remain with the user until the waste equipment is replaced. In the event that this occurs, the waste management obligation for that asset may be transferred to the producer of the replacement equipment, depending upon laws of the applicable European Union member country. The guidance in FSP 143-1 shall be applied the later of the first reporting period ending after June 8, 2005 or the date of the adoption of the law by the applicable EU-member country. The Company's adoption of the provisions of FSP 143-1 is not expected to impact its financial condition or results of operations.

In September 2005, the Emerging Issues Task Force reached consensus on EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty" ("Issue No. 04-13"). In certain situations, a company may enter into nonmonetary transactions to sell inventory to another company in the same line of business from which it also purchases inventory. Under Issue No. 04-13, in general, an entity is required to treat sales and purchases of inventory between the entity and the same counterparty as one transaction for purposes of applying APB Opinion No. 29, "Accounting for Nonmonetary Transactions" when such transactions are entered into in contemplation of each other. When such transactions are legally contingent on each other, they are considered to have been entered into in contemplation of each other. The EITF also agreed on other factors that should be considered in determining whether transactions have been entered into in contemplation of each other. Issue No. 04-13 will be effective for all new arrangements entered into in reporting periods beginning after

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March 15, 2006. The Company's adoption of the provisions of Issue No. 04-13 are not expected to impact its financial condition or results of operations.

Note 4: Accounting Changes

Defined Benefit Plans

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

The impact of this change for periods prior to January 1, 2003 was a charge of \$21.5 million or \$0.11 per share, both before and after income taxes, and has been reflected as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations for the year ended December 31, 2003. The effect of the change in 2003 was to decrease the loss before cumulative effect of accounting change by \$7.3 million or \$0.04 per share, both before and after income taxes, and to increase the net loss by \$14.2 million or \$0.08 per share, both before and after income taxes.

Asset Retirement Obligations

Effective December 31, 2005, the Company adopted FIN 47 "Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 "Accounting for Asset Retirement Obligations" ("Statement 143") refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

As a result of the adoption of FIN 47, the Company recorded a \$2.9 million net charge for the cumulative effect of accounting change in 2005, and recorded a \$4.0 million liability for asset retirement obligations, included in other long-term liabilities on the Company's consolidated balance sheet. See Note 3: Significant Accounting Policies for further discussion.

The following table, with comparable actual amounts for the years ended December 31, 2004 and 2003, sets forth the pro forma effects on net loss, loss per share and other long-term liabilities assuming that the Company had adopted the provisions of FIN 47 as of January 1, 2003 (in millions, except per share data).

	Year Ended December 31,	
	2004	2003
As reported:		
Net loss before cumulative effect of accounting change	\$(123.7)	\$(145.2)
Net loss	\$(123.7)	\$(166.7)
Basic net loss before cumulative effect of accounting change per share	\$ (0.55)	\$ (0.83)
Basic net loss per share	\$ (0.55)	\$ (0.94)
Diluted net loss before cumulative effect of accounting change per share	\$ (0.55)	\$ (0.83)
Diluted net loss per share	\$ (0.55)	\$ (0.94)

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	Year Ended December 31,	
	2004	2003
Pro forma amounts reflecting the accounting change applied retroactively:		
Net loss before cumulative effect of accounting change	\$(124.1)	\$(145.6)
Net loss	\$(124.1)	\$(167.1)
Basic net loss per share before cumulative effect of accounting change	\$ (0.55)	\$ (0.83)
Basic net loss per share	\$ (0.55)	\$ (0.94)
Diluted net loss per share before cumulative effect of accounting change	\$ (0.55)	\$ (0.83)
Diluted net loss per share	\$ (0.55)	\$ (0.94)

	Year Ended December 31,	
	2004	2003
Other long-term liabilities:		
As reported	\$ 32.2	\$ 58.2
Pro forma amounts reflecting the accounting change applied retroactively	\$ 35.7	\$ 61.4

Note 5: Restructuring, Asset Impairments and Other, net

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

	Reserve Balance at December 31, 2004	2005 Charges	2005 Usage	2005 Adjustments	Reserve Balance at December 31, 2005
June 2005					
Cash employee separation charges	\$ —	\$ 3.4	\$(1.9)	\$ —	\$ 1.5
March 2005					
Cash employee separation charges	—	1.3	(1.0)	(0.3)	—
Cash exit costs	—	0.3	(0.3)	—	—
Gain on sale of fixed assets	—	(0.5)	0.5	—	—
	—				—
December 2004					
Cash exit costs	1.7	—	(1.7)	—	—
December 2003					
Cash employee separation charges	3.8	—	(2.5)	(0.9)	0.4
Cash exit costs	0.3	0.3	(0.5)	(0.1)	—
	4.1				0.4
December 2002					
Cash employee separations charges	0.4	—	(0.1)	(0.1)	0.2
June 2002					
Cash exit costs	2.5	—	(2.4)	(0.1)	—
March 2002					
Cash employee separations charges	0.2	—	—	—	0.2
	\$ 8.9	\$ 4.8	\$(9.9)	\$ (1.5)	\$ 2.3

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	Reserve Balance at December 31 2003	2004 Charges	2004 Usage	2004 Adjustments	Reserve Balance at December 31 2004
December 2004					
Cash exit costs	\$ —	\$ 1.9	\$ (0.2)	\$ —	\$ 1.7
June 2004					
Cash employee separation charges	—	1.5	(1.5)	—	—
March 2004					
Cash employee separation charges	—	0.3	(0.3)	—	—
Cash exit costs	—	0.1	(0.1)	—	—
Loss on sale of fixed assets	—	12.0	(12.0)	—	—
	—				—
December 2003					
Cash employee separation charges	5.2	1.8	(3.4)	0.2	3.8
Cash exit costs	0.4	0.5	(0.6)	—	0.3
Non-cash impairment of property, plant and equipment	—	3.3	(3.3)	—	—
	5.6				4.1
September 2003					
Cash employee separation charges	0.5	—	(0.4)	(0.1)	—
December 2002					
Cash employee separations charges	3.1	—	(1.5)	(1.2)	0.4
Cash exit costs	0.7	—	(0.1)	(0.6)	—
	3.8				0.4
June 2002					
Cash exit costs	2.5	—	—	—	2.5
March 2002					
Cash employee separations charges	0.3	—	(0.2)	0.1	0.2
June 2001					
Cash exit costs	0.4	—	—	(0.4)	—
	\$ 13.1	\$ 21.4	\$ (23.6)	\$ (2.0)	\$ 8.9

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	Reserve Balance at December 31 2002	2003 Charges	2003 Usage	2003 Adjustments	Reserve Balance at December 31 2003
December 2003					
Cash employee separation charges	\$ —	\$ 5.2	—	—	\$ 5.2
Cash exit costs	—	0.4	—	—	0.4
Non-cash impairment of property, plant and equipment	—	20.2	(20.2)	—	—
Write-down of long-term receivable and investment	—	4.3	(4.3)	—	—
	—				5.6
September 2003					
Cash employee separation charges	—	1.4	(0.9)	—	0.5
June 2003					
Cash employee separation charges	—	0.4	(0.4)	—	—
Cash exit costs	—	1.4	(1.4)	—	—
Non-cash impairment of property, plant and equipment	—	10.5	(10.5)	—	—
Non-cash impairment of intangible asset	—	20.8	(20.8)	—	—
Write-down of investment	—	0.5	(0.5)	—	—
	—				—
December 2002					
Cash employee separation charges	9.9	—	(6.7)	(0.1)	3.1
Cash exit costs	1.8	—	(1.1)	—	0.7
	11.7				3.8
June 2002					
Cash employee separation charges	0.4	—	(0.4)	—	—
Cash exit costs	1.5	—	—	1.0	2.5
	1.9				2.5
March 2002					
Cash employee separation charges	3.0	—	(2.8)	0.1	0.3
December 2001					
Cash employee separation charges	0.1	—	—	(0.1)	—
June 2001					
Cash exit costs	2.8	—	(2.2)	(0.2)	0.4
	\$ 19.5	\$ 65.1	\$(72.2)	\$ 0.7	\$ 13.1

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As of December 31, 2005, the reserve balance of \$2.3 million was comprised entirely of employee severance charges. A reconciliation of the activity in the tables above to the “Restructuring, asset impairments and other, net” caption on the statement of operations for the years ended December 31, 2005, 2004 and 2003, is as follows (in millions):

	<u>2005</u>
2005 Charges	\$ 4.8
Less: net adjustments to reserves	(1.5)
	<u>\$ 3.3</u>
	<u>2004</u>
2004 Charges	\$21.4
Plus: charges related to the termination of an executive officer (June 2004)*	0.2
Less: net adjustments to reserves	(2.0)
	<u>\$19.6</u>
	<u>2003</u>
2003 Charges	\$65.1
Less: gain on sale of Guadalajara facility*	(4.6)
Plus: net adjustments to reserves	0.7
	<u>\$61.2</u>

* Not included in above tables

December 2005

In December 2005, the Company reversed \$0.8 million of restructuring, asset impairment and other, net charges, which included \$0.1 million of cash exit costs offset by \$0.9 million of net adjustments to reserves.

The \$0.9 million of net adjustments include \$0.8 million of adjustments to the employee separation charges reserve related to the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003, and \$0.1 million of employee separation charges reserve for employees whose terminations were announced in December 2002.

The \$0.1 million of exit costs related to certain activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island. The associated payments are expected to be completed as of March 2006.

September 2005

In September 2005, the Company recorded \$0.2 million in restructuring, asset impairment and other, net charges, which included \$0.3 million of employee separation charges related to the June 2005 restructuring program, which was attributable to two employees who rendered services beyond the notification period and to four employees who were notified of their termination after the second quarter of 2005. This charge was partially offset by a \$0.1 million reversal of amounts previously recorded for exit costs in connection with the December 2003 restructuring program as a result of the termination of the associated lease commitments.

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

June 2005

In June 2005, the Company recorded \$2.8 million in restructuring, asset impairment and other, net charges, which include \$3.1 million of employee separation charges and \$0.1 million of exit costs, partially offset by \$0.4 million of net adjustments to reserves. As discussed above, in September 2005, the Company recorded an additional \$0.3 million in restructuring, asset impairment and other, net charges, related to the general worldwide work force reductions announced in June 2005.

The \$3.4 million of total employee separation charges includes \$2.2 million related to general worldwide work force reductions of approximately 60 employees. The remaining \$1.2 million of employee separation charges related to the termination of 80 employees in Malaysia resulting from the transfer of wafer fabrication manufacturing operations, which supports the standard components product line, from Malaysia to the United States. As of December 31, 2005, there were 79 employees remaining to be terminated. All terminations and associated severance payments related to these charges are expected to be completed during the third quarter of 2006.

The \$0.1 million of exit costs related to certain activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island. The associated payments were completed as of July 1, 2005.

The \$0.4 million of net adjustments include \$0.3 million of adjustments to the employee separation charges reserve related to the shutdown of the Company's Grenoble, France design center that was announced in March 2005, as described below, and \$0.1 million of adjustments to the employee separation charges reserve related to the shutdown of the Company's assembly and test operations in Roznov, Czech Republic that was announced in November 2003, as described below.

Cumulative charges of \$3.4 million have been incurred as of December 31, 2005, related to this restructuring program. The Company does not expect any additional charges related to the June 2005 restructuring program.

March 2005

In March 2005, the Company recorded \$1.1 million in restructuring, asset impairment and other, net charges, which include \$1.3 million of employee separation charges and \$0.4 million of exit costs partially offset by \$0.5 million of gain on sale of fixed assets and \$0.1 million of net adjustments to reserves.

The \$1.3 million of employee separation charges related to the termination of 13 employees in connection with the shutdown of the Company's Grenoble, France design center. The design center operations were moved from Grenoble to the Company's Toulouse, France facility during the first quarter of 2005. All terminations and associated severance payments related to this charge were completed as of July 1, 2005. Also, as discussed above, the remaining \$0.3 million of employee separation charges reserve for this activity was reversed during June 2005.

Included in the \$0.4 million of exit costs is \$0.3 million for legal fees and lease termination costs related to the shutdown of the Company's Grenoble design center. All payments related to these exit costs have been completed. The remaining \$0.1 million related to certain exit activities that were completed in connection with the December 2003 announcement of the shutdown of manufacturing operations in East Greenwich, Rhode Island, and the last associated payments were made as of April 1, 2005.

The \$0.5 million gain on sale of fixed assets related to the sale of portions of land at East Greenwich for approximately \$0.7 million, which had a net book value of approximately \$0.2 million prior to the sale. Also

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during the first quarter of 2005, the Company partially resolved an issue with a manufacturing supply contract in connection with the June 2002 restructuring program for \$2.4 million. The remaining \$0.1 million of reserve was released during the first quarter of 2005, as discussed below.

Cumulative charges of \$1.6 million offset by adjustments of \$0.3 million have been incurred as of December 31, 2005, related to this restructuring program. The Company does not expect any additional charges related to the March 2005 restructuring program.

December 2004

In December 2004, the Company recorded \$5.6 million in restructuring, asset impairment and other, net charges, which includes \$3.3 million of asset impairments associated with the Company's restructuring programs, \$1.9 million of exit costs, and \$0.4 million of employee separation charges.

The \$3.3 million of asset impairments include \$3.0 million associated with the East Greenwich, Rhode Island facility and \$0.3 million associated with the closure of the assembly and test operations in Roznov, Czech Republic. During 2004 the Company was unable to secure a buyer for the assets related to the closure of the East-Greenwich facility, as announced in December 2003 and discussed below. This, coupled with the postponement of the planned discontinuation of manufacturing activities at East Greenwich, triggered an impairment analysis of the carrying value of the related assets and resulted in the Company recording asset impairment charges of \$3.0 million associated with East Greenwich. The Company measured the amount of each asset impairment by comparing the carrying values of the respective assets to their related estimated fair values. The Company estimated future net cash flows for the period of continuing manufacturing activities (March 2005 for East Greenwich and December 2004 for Roznov) for each group of assets using price, volume, cost and salvage value assumptions that management considered reasonable in the circumstances. The impairment charges were recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value.

The \$1.9 million of exit costs include \$1.9 million of contract termination costs incurred to terminate two information technology outsourcing agreements and \$0.2 million related to certain exit activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003, as described below. Also in December 2004, the Company reversed \$0.2 million of the exit costs reserve for lease terminations that was announced in December 2002, as described below. The remaining \$1.7 million of contract termination costs were paid during the first quarter of 2005.

The employee separation charges of \$0.4 million include \$0.2 million of employee separation charges and \$0.2 million of adjustments to the employee separation charges reserve related to the shutdown of the Company's assembly and test operations in Roznov, Czech Republic that was announced in November 2003, as described below. The Company also recorded a \$0.1 million reversal of amounts previously recorded in connection with the Company's September 2003 restructuring program, as described below, and recorded an additional \$0.1 million charge associated with its March 2002 restructuring program as described below.

Cumulative charges of \$5.6 million have been incurred as of December 31, 2005 related to this restructuring program. The Company does not expect any additional charges related to the December 2004 restructuring program.

September 2004

During the third quarter of 2004, the Company recorded \$0.3 million of employee separation charges related to the shutdown of the Company's assembly and test operations in Roznov, Czech Republic that was announced in November 2003, as described below, and \$0.1 million of exit costs related to certain exit activities that were

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completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003, also described below. These costs were offset by the reversal of a \$0.4 million reserve for cash exit costs related to the June 2001 restructuring activity, as described below, which, after management's evaluation, are no longer expected to be incurred.

June 2004

In June 2004, the Company recorded \$2.3 million in restructuring, asset impairment and other, net charges, which includes \$2.1 million of employee separation charges and \$0.2 million of exit costs.

The employee separation charges of \$2.1 million include \$1.5 million for the termination of approximately 190 additional employees at Roznov, Czech Republic due to the transfer of the Company's assembly and test operations in Roznov to Malaysia and the Philippines that was announced in November 2003, as described below. All terminations and associated severance payments related to these charges were completed as of December 31, 2004.

The remaining \$0.6 million of employee separation charges relates to the shutdown of the Company's assembly and test operations in Roznov that was announced in November 2003, as described below. This amount represents a portion of the total severance benefits for approximately 460 employees. All terminations and associated severance payments related to these charges were completed as of December 31, 2004.

Included in the \$0.2 million of exit costs is \$0.1 million related to certain exit activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003, as described below. The remaining \$0.1 million of exit costs relate to the information technology ("IT") outsourcing agreement that was announced in March 2004.

Also in June 2004, the Company recorded a \$0.2 million charge to cover costs associated with the separation of one of the Company's executive officers. All payments related to this charge have been completed.

Also in June 2004, the Company reversed \$1.2 million of the employee separation charges reserve for employees whose terminations were rescinded due to business improvements and the plan to consolidate accounting systems that was announced in December 2002, as described below. In June 2004, the Company also reversed \$0.4 million of exit costs, associated with the decommissioning of certain assets that are no longer expected to be incurred, which decommissioning was announced in December 2002, as described below.

The Company does not expect any additional charges related to the June 2004 restructuring activity.

March 2004

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

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

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As a result of the new IT outsourcing agreement, the Company plans to reduce its current IT staffing levels. In connection with this reduction, the Company recorded a \$0.3 million severance charge related to the termination of 12 employees in the United States. All terminations and associated severance payments related to these charges have been completed as of December 31, 2005.

The remaining \$0.7 million of employee separation costs relates to the shutdown of the Company's assembly and test operations in Roznov, Czech Republic that was announced in November 2003, as described below. This amount represents a portion of the total severance benefits for approximately 460 employees.

The \$0.1 million of exit costs relate to certain exit activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island that was announced in December 2003, as described below.

December 2003

In December 2003, the Company recorded \$30.1 million in restructuring, asset impairment and other, net charges. These charges included \$5.2 million to cover employee separation costs, \$0.4 million of lease and contract costs and \$20.2 million of asset impairments associated with the Company's restructuring programs, and \$4.3 million of other charges associated with the write-down of certain other assets. The Company also recorded a \$0.1 million reversal of amounts previously recorded in connection with the Company's June 2001 restructuring program and \$0.1 million reversal of amounts previously recorded in connection with the December 2002 restructuring program, as described below.

The employee separation costs of \$5.2 million reflect the phase-out of manufacturing operations at the Company's East Greenwich, Rhode Island facility, the shutdown of the Company's assembly and test operations in Roznov, Czech Republic, that was announced in November 2003, and further reductions in general and administrative staffing levels in the United States and Western Europe for cost savings purposes. The employee separation charges for East Greenwich totaled \$3.8 million for approximately 325 employees, of which \$0.2 million remained unpaid for nine employees remaining to be terminated as of December 31, 2005. The Company's East Greenwich, Rhode Island manufacturing facility supports the Company's Analog Product Group. The Czech Republic employee separation charge of \$0.5 million represents a portion of the total severance charges for approximately 460 employees. Additional severance costs of approximately \$1.6 million related to the Czech Republic were recognized ratably over 2004. The remaining \$0.9 million charge relates to severance benefits for approximately 10 employees in general and administrative functions in the United States and Europe of which \$0.2 million remained unpaid for four employees remaining to be terminated as of December 31, 2005. All terminations and associated severance payments related to this charge are expected to be completed by the fourth quarter of 2006.

The lease and contract termination costs of \$0.4 million reflect costs incurred in connection with the consolidation of sales, distribution and administrative facilities in North America. All associated payments related to this charge are expected to be completed by the second quarter of 2006.

The \$20.2 million of asset impairments include \$15.3 million associated with the East Greenwich, Rhode Island facility and \$4.9 million associated with the closure of the assembly and test operations in Roznov, Czech Republic. The planned discontinuation of manufacturing activities triggered an impairment analysis of the carrying value of the related assets and resulted in the Company recording asset impairment charges of \$15.3 million associated with the East Greenwich, Rhode Island facility and \$4.9 million associated with the assembly and test operations in Roznov, Czech Republic. The Company measured the amount of each asset impairment by

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comparing the carrying values of the respective assets to their related estimated fair values. The Company estimated future net cash flows for the period of continuing manufacturing activities (December 2004 for East Greenwich and Roznov) for each group of assets using price, volume, cost and salvage value assumptions that management considered reasonable in the circumstances. The impairment charges were recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value.

The \$4.3 million of other charges consist of a \$2.3 million write-off of a long-term note receivable and a \$2.0 million write-down of a cost basis investment. The note receivable was created in connection with the sale of certain equipment in 2001 and was fully reserved during the fourth quarter of 2003 when the counterparty defaulted on the obligation. The Company continues to attempt to collect this note. The cost basis investment relates to a semiconductor start-up company that was written down in the fourth quarter of 2003 based on the company's operating performance and liquidity concerns.

Cumulative charges of \$36.0 million offset by adjustments of \$0.8 million have been incurred as of December 31, 2005, related to this restructuring program. The Company does not expect any additional charges related to the December 2003 restructuring program, except for approximately \$0.1 million of exit costs during the first and second quarters of 2006 related to the phase-out of manufacturing operations at the Company's East Greenwich, Rhode Island facility.

September 2003

In September 2003, the Company recorded a \$4.6 million gain in connection with the sale of its Guadalajara, Mexico facility. This gain was partially offset by charges totaling \$1.4 million associated with worldwide restructuring programs to cover employee separation costs relating to the termination of approximately 36 employees, reflecting further reductions in manufacturing and general and administrative personnel in France, Germany, the Czech Republic, Hong Kong and the United States. The Company also recorded a \$0.1 million and \$0.1 million reversal, respectively, of amounts previously recorded in connection with the Company's June 2001 and December 2001 restructuring programs, as described below, and an additional \$0.1 million charge associated with its March 2002 restructuring program also described below.

As mentioned previously, in December 2004 the Company recorded a \$0.1 million reversal of amounts recorded in connection with this restructuring program. All impacted employees have been terminated, and the Company has made all severance payments.

June 2003

In June 2003, the Company recorded charges totaling \$13.3 million associated with its worldwide restructuring programs. The charges include \$0.4 million to cover employee separation costs relating to the termination of approximately 16 employees, \$1.4 million of lease and contract termination exit costs, \$10.5 million of asset impairments and an additional \$1.0 million associated with a supply contract that was terminated as part of the June 2002 restructuring program described below.

The employee separation costs reflected further reductions in general and administrative staffing levels primarily in the United States. All impacted employees have been terminated, and the Company has made all severance payments.

The lease and contract termination exit costs relate to the exit of certain sales and administrative offices and the termination of other purchase and supply agreements. All associated exit costs have been paid.

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The \$10.5 million of asset impairments include \$3.3 million associated with an assembly and test packaging production line in Malaysia which was written down to estimated fair value based on its future net discounted cash flows. Additionally, the Company identified certain buildings, machinery, software and equipment that would no longer be used internally due to the continued consolidation of manufacturing and general and administrative functions primarily in the United States and recorded a charge of \$7.2 million to write-down the remaining carrying value of these assets to their net realizable value.

The Company also recorded non-cash impairment charges totaling \$21.3 million including \$20.8 million relating to the write-off of the developed technology intangible asset associated with the Cherry acquisition and a \$0.5 million write-off of a cost basis investment. Sustained price declines in certain product lines triggered an impairment analysis of the carrying value of the developed technology intangible asset and resulted in the Company recording an impairment charge of \$20.8 million. The Company measured the amount of the impairment charge by comparing the carrying value of the developed technology to its estimated fair value. The Company estimated future net cash flows associated with the developed technology intangible asset using price, volume and cost assumptions that management considered to be reasonable in the circumstances. The Company no longer incurred annualized amortization expense of approximately \$12.0 million per year through March 2005 related to this intangible asset.

December 2002

In December 2002, the Company recorded employee separation costs relating to the termination of approximately 300 employees of which \$9.9 million remained unpaid as of December 31, 2002, and approximately \$1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets. The headcount reductions began in the first quarter of 2003 and impacted both manufacturing and non-manufacturing personnel mainly in the United States. These headcount reductions were initiated for cost savings purposes.

As previously mentioned, in December 2003 the Company recorded \$0.1 million of reversals of employee separation costs and in December 2004 the Company recorded \$0.2 million of reversals to the exit costs reserves that had been recorded in connection with the December 2002 restructuring program. Also, in June 2004 the Company reversed \$1.2 million of the employee separation charges reserve that was recorded in December 2002. This reversal was for employees whose terminations were rescinded due to business improvements and the plan to consolidate accounting systems. Furthermore, in June 2004, the Company also reversed \$0.4 million of exit costs, associated with the decommissioning of certain assets that are no longer expected to be incurred, which decommissioning was announced in December 2002.

As of December 31, 2005, there were 5 employees remaining to be terminated during 2006 and the related unpaid severance payments of \$0.2 million are expected to be paid by June 2006.

Cumulative charges of \$12.9 million offset by adjustments of \$2.0 million have been incurred as of December 31, 2005, related to this restructuring program. The Company does not expect any additional charges related to the December 2002 restructuring program.

June 2002

In June 2002, the Company recorded charges to cover employee separation costs associated with the termination of 79 U.S. employees, of which \$0.4 million remained unpaid as of December 31, 2002, and exit costs associated with a manufacturing supply agreement, of which \$1.5 million remained unpaid as of

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December 31, 2002. The employee separation costs reflected further reductions in general and administrative staffing levels for cost savings purposes and included non-cash stock compensation charges associated with the modification of stock options for certain terminated employees. All impacted employees have been terminated and the related severance costs were paid during 2003.

As a result of continuing economic conditions, the Company determined that certain manufacturing equipment purchase and supply agreements were no longer economical to complete and recorded estimated termination charges during the second quarter of 2002, of which \$1.5 million remained outstanding as of December 31, 2002. In June 2003, the Company recorded an additional \$1.0 million associated with a manufacturing supply contract. During the first quarter of 2005 this issue was partially resolved with the vendor and the related payment of \$2.4 million was made and the remaining \$0.1 million was written off during the first quarter of 2005. As of December 31, 2004, all employees had been terminated under the restructuring program.

Cumulative charges of \$15.1 million and additional charges from adjustments of \$0.9 million have been incurred as of December 31, 2005, related to this restructuring program. The Company does not expect any additional charges related to the June 2002 restructuring program.

March 2002

In March 2002, the Company recorded a charge to cover employee separation costs of which \$3.0 million remained unpaid as of December 31, 2002, relating to the termination of approximately 72 employees, most of which was attributable to employee terminations resulting from the Company's decision to relocate its European administrative functions from Toulouse, France to Roznov, Czech Republic and Piestany, Slovakia for cost savings purposes. The relocation of these functions was completed in 2003. The charge also related to reductions in selling, general and administrative personnel primarily in the U.S. As previously mentioned, the Company also recorded additional charges of \$0.1 million in September 2003 and \$0.1 million in December 2004 associated with this restructuring program based on the Company's estimate of costs to complete the activity at those times. As of December 31, 2004, all employees had been terminated under this program and the remaining liability relating to this restructuring of \$0.2 million as of December 31, 2005 is expected to be paid by December 2006.

Cumulative charges of \$7.2 million and additional charges from adjustments of \$0.5 million have been incurred as of December 31, 2005, related to this restructuring program. The Company does not expect any additional charges related to the March 2002 restructuring program.

December 2001

In December 2001, the Company recorded charges to cover employee separation costs associated with the termination of 50 employees, of which \$0.1 million remained outstanding as of December 31, 2002. The employee separation costs reflected reductions in selling, general and administrative staffing levels in the U.S., United Kingdom, Germany, France and Singapore. As discussed previously, in September 2003 the Company recorded a \$0.1 million reversal of amounts recorded in connection with this activity. All impacted employees have been terminated and the related severance amounts have been paid.

June 2001

In June 2001, the Company recorded charges for costs associated with its worldwide restructuring programs. These programs were in response to rapidly changing economic circumstances requiring the Company to rationalize its manufacturing and distribution operations to meet declining customer demand. The programs

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
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included the phasing out of manufacturing operations at the Company's Guadalajara, Mexico facility by June 2002, transferring certain manufacturing activities performed at the Company's Aizu, Japan and Seremban, Malaysia facilities to other Company-owned facilities or to third party contractors by June 2002 and December 2001, respectively, and the shutdown of the Company's Hong Kong Distribution Center and the transfer of related functions to its Singapore Distribution Center. The charge included employee separation costs associated with the termination of approximately 3,200 employees all of which had been paid as of December 31, 2002. All employees have been terminated under the June 2001 restructuring program.

The June 2001 charge also included exit costs relating to facility closure and contract terminations expected facility clean up activities, equipment disposal fees, equipment purchase cancellations and other contract cancellations of which \$2.8 million remained outstanding as of December 31, 2002. As previously mentioned, in September 2003, December 2003 and September 2004, the Company released \$0.1 million, \$0.1 million and \$0.4 million, respectively, of reserves related to this restructuring program due to the Company's analysis of estimated costs to complete the program. The Company does not expect any additional charges related to the June 2001 restructuring activity.

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Note 6: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31,	
	2005	2004
Receivables, net:		
Accounts receivable	\$ 163.0	\$ 133.9
Less: Allowance for doubtful accounts	(2.8)	(2.4)
	<u>\$ 160.2</u>	<u>\$ 131.5</u>
Inventories, net:		
Raw materials	\$ 18.0	\$ 19.3
Work in process	88.1	103.4
Finished goods	63.4	70.7
	<u>\$ 169.5</u>	<u>\$ 193.4</u>
Property, plant and equipment, net:		
Land	\$ 14.9	\$ 16.2
Buildings	335.9	364.5
Machinery and equipment	1,004.2	1,054.4
	<u>1,355.0</u>	<u>1,435.1</u>
Less: Accumulated depreciation	(916.5)	(963.1)
	<u>\$ 438.5</u>	<u>\$ 472.0</u>
Goodwill, net:		
Goodwill	\$ 95.7	\$ 95.7
Less: Accumulated amortization	(18.4)	(18.4)
	<u>\$ 77.3</u>	<u>\$ 77.3</u>
Accrued expenses:		
Accrued payroll	\$ 31.0	\$ 25.2
Sales related reserves	28.7	21.2
Restructuring reserves	2.3	8.9
Accrued pension liability	2.0	22.1
Other	19.9	23.0
	<u>\$ 83.9</u>	<u>\$ 100.4</u>
Accumulated other comprehensive income:		
Foreign currency translation adjustments	\$ (2.5)	\$ 2.2
Net unrealized gains or losses and adjustments related to cash flow hedges (before and after taxes)	3.2	(0.5)
Unrealized losses on deferred compensation plan investments (before and after taxes)	—	(0.6)
	<u>\$ 0.7</u>	<u>\$ 1.1</u>

Depreciation expense for property, plant and equipment, including amortization of capitalized leases, totaled \$94.2 million, \$97.3 million and \$116.7 million for 2005, 2004 and 2003, respectively. Amortization expense related to the developed technology intangible asset totaled \$5.9 million in 2003.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
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As of December 31, 2005 and 2004, total property, plant and equipment included \$20.4 and \$14.2 million, respectively, of assets recorded under capital leases. Accumulated depreciation associated with these assets is included in total accumulated depreciation in the table above.

The activity related to our warranty reserves for 2003, 2004 and 2005 follows (in millions):

Balance as of December 31, 2002	\$ 2.7
Provision	0.4
Usage	(0.8)
Reserved released	(0.7)
Balance as of December 31, 2003	1.6
Provision	2.0
Usage	(0.4)
Reserved released	(0.2)
Balance as of December 31, 2004	3.0
Provision	5.3
Usage	(4.2)
Reserved released	(0.1)
Balance as of December 31, 2005	\$ 4.0

Note 7: Long-Term Debt

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

	December 31, 2005	December 31, 2004
	(in millions)	
Senior Bank Facilities:		
Term Loan, interest payable quarterly at 7.1875% and 5.5625%, respectively	\$ 639.1	\$ 645.5
Revolver	—	—
	639.1	645.5
Zero Coupon Convertible Senior Subordinated Notes due 2024	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025	95.0	—
10% Junior Subordinated Note paid in 2005	—	154.2
2.25% Note payable to Japanese bank due 2006 through 2010, interest payable semi-annually	15.4	21.1
Loan with a Chinese bank due 2006 through 2007, interest payable quarterly at 5.867% and 4.55%, respectively	14.0	20.0
Loan with a Chinese bank due 2006 through 2013, interest payable semiannually at 6.167% and 4.25%, respectively	34.4	43.2
Capital lease obligations	9.1	7.8
	1,067.0	1,151.8
Less: Current maturities	(73.9)	(20.0)
	\$ 993.1	\$ 1,131.8

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

Annual maturities relating to the Company's long-term debt as of December 31, 2005 are as follows (in millions):

	<u>Actual Maturities</u>
2006	\$ 73.9
2007	19.4
2008	12.3
2009 (1)	598.2
2010	264.1
Thereafter	99.1
	<hr/>
Total	\$ 1,067.0

- (1) The term loan portion of the Company's credit facility matures December 15, 2009, however, if the first date on which holders of at least \$210.0 million in aggregate principal amount of the Company's zero coupon convertible senior subordinated notes due 2024 is extended (currently April 10, 2010), the term loan will mature on the date which is six months prior to the first date on which holders may exercise such "put" rights. In no event can the maturity date of the term loan be extended beyond December 15, 2011.

Loss on Debt Prepayment

During the year ended December 31, 2004, the Company incurred a loss on debt prepayment of \$159.7 million, comprised of the following:

- \$89.0 million of costs resulting from redemption premiums, consent fees and dealer manager fees upon repayment of \$200.0 million outstanding principal of the first-lien senior secured notes due 2010 and \$300.0 million outstanding principal of the second-lien senior secured notes due 2008. Also in connection with these redemptions, the Company wrote off \$14.1 million of unamortized debt discounts, wrote off \$17.5 million of debt issuance costs and expensed \$0.2 million of third-party expenses in connection therewith.
- \$1.9 million of costs resulting from arrangement and incentive fees paid to creditors upon refinancing of the tranche F senior bank facilities due 2009 to the tranche G senior bank facilities due 2005 through 2009. Also in connection with this refinancing, the Company wrote off approximately \$6.3 million of debt issuance costs and \$0.3 million of unamortized debt discounts related to the tranche F senior bank facilities.
- \$22.9 million of costs resulting from redemption premiums, consent fees, tender offer fees, legal fees and dealer manager fees upon redemption of \$260.0 million outstanding principal of the 12% senior subordinated notes due 2009, and also wrote off \$7.5 million of debt issuance costs.

During the year ended December 31, 2003, the Company incurred a loss on debt prepayment of \$7.7 million, comprised of the following:

- \$1.0 million of debt refinancing costs, \$0.2 million of third-party expenses and \$0.1 of unamortized debt discounts were written off in connection with the November 2003 amendment to the senior bank facilities and loan repricing.
- \$2.9 million of costs in connection with the debt prepayment with proceeds from the public offering of common stock in September 2003, which consisted of the write-off of \$2.5 million of debt issuance costs and the expensing of \$0.4 million of third-party expenses in connection therewith.
- \$3.5 million of debt issuance costs upon prepayment of a portion of the amounts outstanding under the Company's senior bank facilities and revolving credit facility.

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Senior Bank Facilities

Terms Existing as of December 31, 2005

Borrowings under the senior bank facilities, which bear interest at rates selected by the Company based on either the London Interbank Offered Rate (“LIBOR”) or an alternative base rate, as defined, plus an interest rate spread of 2.75%, amortized within five years. As of December 31, 2005, after consideration of the amendments to the credit agreement described below, the senior bank facilities contained a \$25.0 million revolving line of credit. Letters of credit totaling \$11.7 million were outstanding against the line of credit at December 31, 2005 leaving \$13.3 million of availability at that date. However, on January 9, 2003, the Company amended its primary foreign exchange hedging agreement to provide for termination of such agreement if at any time the amount available under the revolving credit facility becomes less than \$2.5 million.

As of December 31, 2005, borrowings under the senior bank facilities were \$639.1 million under the tranche G term loans, with interest payable quarterly and accruing at a rate of LIBOR plus 2.75%. The interest rate as of December 31, 2005 was 7.1875%. Principal payments under the tranche G term loan facility were paid quarterly at an annualized rate of 1% of the original principal balance, with the remaining principal due at maturity. The tranche G term loan facility contained certain financial covenants including letters of credit and minimum EBITDA requirements. The Company was in compliance with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2005. Management believes that the Company will be able to comply with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2006.

After meeting certain financial conditions during the fourth quarter of 2004, certain financial covenants were revised in the senior bank facilities to:

- increase the maximum amount of sales, transfers and other dispositions of assets during any fiscal year to \$50.0 million aggregate fair market value;
- permit acquisitions of up to \$50.0 million in equity interests of other companies;
- increase the maximum amount of other investments to \$100.0 million;
- remove the minimum cash and cash equivalents requirement; and
- allow payment of fees and expenses in cash to TPG in an aggregate amount not to exceed \$2.0 million in any fiscal year.

The credit agreement relating to the Company’s senior bank facilities includes a provision requiring an annual calculation of cash flow (as defined) and the application of a portion of that cash flow as a prepayment of loans outstanding under the agreement. Included in the current portion of long-term debt as of December 31, 2005 was approximately \$26.0 million, which is the amount expected to be payable during the first quarter of 2006 under this provision. The Company is currently discussing with its lenders an amendment of this provision that would require prepayment only at the election of individual lenders; depending on the outcome of those discussions, the amount the Company pays to its lenders during 2006 under this provision may be reduced.

The Company entered into interest rate swap agreements to reduce the exposure to interest rate fluctuations on the senior bank facilities, as discussed at Note 13 “Financial Instruments.”

2005 Amendments and Refinancings

In connection with the repayment of the junior subordinated notes, discussed below, the Company amended its senior bank facilities on November 4, 2005 to, among other things, permit the repayment of the junior

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

subordinated notes and permit the purchase and sale of calls with respect to the Company's stock for an aggregate net cost not exceeding \$15.0 million in connection with the issuance of the 1.875% convertible senior subordinated notes due 2025, as discussed below.

In December 2004, the Company refinanced the term loans under its senior bank facilities and increased its total borrowings under these facilities to \$645.5 million. The Company replaced \$320.5 million of the tranche F term loan facility with \$645.5 million of a tranche G term loan facility with terms, other than the interest rate and principal balance, that were largely identical to those of the tranche F term loan facility. Proceeds from the tranche G term loan facility were used to prepay \$130.0 million principal outstanding of the first-lien senior secured notes due 2010 and \$195.0 million principal outstanding of the second-lien senior secured notes due 2008. Principal payments under the tranche G term loan facility were paid quarterly at an annualized rate of 1% of the original principal balance, with the remaining principal due at maturity. The tranche G loan facility would have been due December 15, 2009, but could have been extended to December 15, 2011; provided that the zero coupon convertible senior subordinated notes and the junior subordinated notes were redeemed by December 15, 2009 and December 15, 2010, respectively. The Company also increased the interest rate on its term loans by 0.25% per annum. Costs incurred in connection with this refinancing totaled \$2.4 million, of which \$1.9 million were expensed as incurred while the remaining \$0.5 million of such costs were capitalized and are being amortized using the effective interest method.

In January 2006, the Company refinanced the term loans under its senior bank facilities to reduce the interest rate from LIBOR plus 2.75% to LIBOR plus 2.50%. The amended and restated credit agreement also provides for a step down provision that would further reduce the interest rate to LIBOR plus 2.25% if the Company maintains a specified credit rating and meets a specified leverage ratio test that would first apply based on the 2005 results.

Included in other assets as of December 31, 2005, are \$0.6 million of remaining debt issuance costs associated with the senior bank facilities, which will be amortized over the remaining term of the debt using the effective interest method, and \$0.5 million of debt issuance costs associated with the revolver which will be amortized ratably over the remaining term of the revolving line of credit.

Zero Coupon Convertible Senior Subordinated Notes

On April 6, 2004, the Company commenced a cash tender offer for all of its outstanding 12% senior subordinated notes due 2009, as discussed below. In order to finance the cash tender offer, the Company issued \$260.0 million of zero coupon convertible senior subordinated notes due 2024. The Company received net proceeds of approximately \$251.2 million from the sale of the notes after deducting commissions and estimated offering expenses of \$8.8 million, which were capitalized as debt issuance costs and are being amortized using the effective interest method through the first put date of April 15, 2010. The notes do not bear cash interest, nor does the principal amount accrete. The effective interest rate of the notes resulting from the amortization of debt issuance costs is 0.58%. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by certain existing and future subsidiaries of the Company.

Holders may convert the notes into approximately 26.5 million shares of the Company's common stock at a conversion rate of 101.8849 shares per \$1,000 principal amount (equivalent to a conversion price of \$9.815 per share) of notes before April 15, 2024 under the following circumstances: (1) during any fiscal quarter commencing after June 30, 2004 through maturity if the closing sale price of the Company's common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading-day period ending on the last trading day of the preceding fiscal quarter; (2) during the five business-day period after any five consecutive trading-day period in which the trading price per \$1,000 principal amount of notes for each day of that period was less than 98% of the product of the closing sale price of the Company's common stock and the

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conversion rate; (3) if the notes have been called for redemption; (4) after the date, if ever, on which either Moody's Investors Service, Inc. or Standard & Poor's Rating Services assigns an initial credit rating to the notes, during any period in which the credit rating assigned to the notes by either Moody's or S&P is three or more rating subcategories below the initial credit rating assigned by Moody's or S&P, as the case may be, or any period in which the notes are no longer rated by either Moody's or S&P, as the case may be, if such ratings agency had previously rated the notes; or (5) upon the occurrence of certain corporate events.

Beginning April 15, 2010, the Company may redeem any of the notes at specified redemption prices. Holders may require the Company to repurchase the notes for cash on April 15 of 2010, 2014 and 2019. Upon the occurrence of certain corporate events, each holder may require the Company to purchase all or a portion of such holder's notes for cash at a price equal to the principal amount of such notes. The notes are subordinated in right of payment to all of the Company's senior indebtedness. Upon conversion, the Company has the right to deliver cash in lieu of shares of the Company's common stock.

Included in other assets as of December 31, 2005 were \$6.3 million of debt issuance costs associated with the zero coupon convertible senior subordinated notes, which will be amortized ratably through 2010.

1.875% Convertible Senior Subordinated Notes

In order to finance the repayment of the junior subordinated note discussed below, on December 15, 2005 the Company issued \$95.0 million of 1.875% convertible senior subordinated notes due 2025. The Company received net proceeds of approximately \$91.0 million from the sale of the notes after deducting commissions and estimated offering expenses of \$4.0 million, which were capitalized as debt issuance costs and are being amortized using the effective interest method through the first put date of December 15, 2012. The notes bear interest at the rate of 1.875% per year from the date of issuance. Interest on the notes is payable on June 15 and December 15 of each year, beginning on June 15, 2006. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by certain existing and future subsidiaries of the Company.

The notes are convertible by holders into cash and shares of the Company's common stock at a conversion rate of 142.8571 shares of common stock per \$1,000 principal amount of notes (subject to adjustment in certain events), which is equivalent to an initial conversion price of approximately \$7.00 per share of common stock. The Company will settle conversion of all notes validly tendered for conversion in cash and shares of the Company's common stock, if applicable, subject to the Company's right to pay the share amount in additional cash. Holders may convert their notes under the following circumstances: (i) during the five business-day period immediately following any five consecutive trading-day period in which the trading price per \$1,000 principal amount of notes for each day of such period was less than 103% of the product of the closing sale price of the Company's common stock and the conversion rate; (ii) upon occurrence of the specified transactions described in the indenture relating to the notes; or (iii) after June 15, 2012.

The notes will mature on December 15, 2025. Beginning December 20, 2012, the Company may redeem the notes, in whole or in part, for cash at a price of 100% of the principal amount plus accrued and unpaid interest to, but excluding, the redemption date. If a holder elects to convert its notes in connection with the occurrence of specified fundamental changes that occurs prior to December 15, 2012, the holder will be entitled to receive, in addition to cash and shares of common stock equal to the conversion rate, an additional number of shares of common stock, in each case as described in the indenture. Holders may require the Company to repurchase the notes for cash on December 15 of 2012, 2015 and 2020 at a repurchase price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest, to, but excluding, the repurchase date. Upon the occurrence of certain corporate events, each holder may require the Company to purchase all or a portion of such holder's notes for cash at a price equal to the principal amount of such notes, plus accrued and unpaid interest, to, but excluding, the repurchase date.

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The notes are the Company's unsecured obligations, will be subordinated in right of payment to all of the Company's existing and future senior indebtedness, will rank *pari passu* in right of payment with all of the Company's existing and future senior subordinated indebtedness and will be senior in right of payment to all of the Company's existing and future subordinated obligations. The notes also will be effectively subordinated to any of the Company's or its subsidiaries' secured indebtedness to the extent of the value of the assets securing such indebtedness.

Included in other assets as of December 31, 2005, were \$4.0 million of debt issuance costs associated with the convertible senior subordinated notes, which will be amortized using the effective interest method through 2012.

Junior Subordinated Note

As part of the recapitalization, the Company entered into a \$91.0 million junior subordinated note due 2011, issued by SCI LLC, the Company's primary domestic operating subsidiary. During the periods it was outstanding, the note bore interest at an annual rate of 10.0%, compounded semi-annually and payable at maturity. The note was junior in right of payment to all senior debt. In November 2005, the Company repaid \$66.4 million of the junior subordinated note with cash on hand, which reduced the outstanding principal amount to approximately \$91.0 million. In December 2005, the Company issued \$95.0 million aggregate principal amount of 1.875% convertible senior subordinated notes due 2025, as discussed above, and used the net proceeds to repay the remaining amount outstanding of its junior subordinated note on December 21, 2005.

Japanese Loan

In 2000, the Company's Japanese subsidiary entered into a yen-denominated loan agreement with a Japanese bank to finance the expansion of its manufacturing facilities. The loan, which had a balance of \$15.4 million at December 31, 2005 (based on the yen-to-dollar exchange rate in effect at that date), bears interest at an annual rate of 2.25% and requires semi-annual principal and interest payments through September 2010 of approximately \$1.6 million (based on the yen-to-dollar exchange rate at December 31, 2005). The loan is unsecured, however, the bank has rights under the agreement to obtain the collateral of the Japanese subsidiary under certain circumstances. In addition, the loan is guaranteed on an unsecured basis by SCI LLC, the Company's primary domestic operating subsidiary.

Chinese Loans

The Company's long-term debt includes a \$14.0 million loan facility between Leshan and a Chinese Bank, which was entered into in November 2000. Interest on these loans is payable quarterly and accrues at a variable rate based on published six month LIBOR rates in China for six-year term loans. During the fourth quarter of 2003, the Company exercised its ability to extend the maturity of this loan for three years under the same terms and conditions, thereby extending scheduled principal payments to \$8.0 million due in the fourth quarter of 2006 and \$6.0 million due in the first quarter of 2007.

The Company's long-term debt also includes a \$34.4 million loan facility between Leshan and another Chinese Bank. The loan facility is comprised of a \$20.0 million tranche and a \$14.4 million tranche. The first tranche has a three-year term with a balloon payment due December 2006, which is extendible for an additional three years under certain circumstances. The second tranche has a 10-year term with scheduled quarterly principal payments through December 2013. Each tranche bears interest at a rate of 6 month LIBOR plus 1.5% per annum, payable semiannually as compared to 3 month LIBOR plus 2.75% under the Company's senior bank facilities.

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

The Company has pledged substantially all of its tangible and intangible assets and similar assets of each of its existing and subsequently acquired or organized domestic subsidiaries (but no more than 65% of the capital stock of foreign subsidiaries held by them) to secure the Company's senior bank facilities. SCI LLC, the primary domestic operating subsidiary of ON Semiconductor Corporation, is the borrower under the Company's senior bank facilities. ON Semiconductor Corporation and the Company's other domestic subsidiaries fully and unconditionally guarantee on a joint and several basis the obligations of the borrower under such facilities.

Debt Guarantees

The Company and SCI LLC, its primary operating subsidiary, were co-issuers (the "Issuers") of the first-lien senior secured notes, the second-lien senior secured notes and the senior subordinated notes at the times they were outstanding and the Company is the sole issuer of the zero coupon convertible senior subordinated notes and the 1.875% convertible senior subordinated notes (collectively, "the Notes"). The Company's other domestic subsidiaries (collectively, the "Guarantor Subsidiaries") fully and unconditionally guarantee on a joint and several basis, the Issuers' obligations under the Notes. The Guarantor Subsidiaries include Semiconductor Components Industries of Rhode Island, Inc, an operating subsidiary, as well as holding companies whose net assets consist primarily of investments in its joint venture in Leshan, China and nominal equity interests in certain of the Company's other foreign subsidiaries. SCI LLC is a guarantor of the zero coupon convertible senior subordinated notes and the 1.875% convertible senior subordinated notes. The Company's remaining subsidiaries (collectively, the "Non-Guarantor Subsidiaries") are not guarantors of the Notes.

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

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

	Issuers					Total
	ON Semiconductor Corporation (2)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
As of December 31, 2005						
Cash and cash equivalents	\$ —	\$ 147.0	\$ —	\$ 86.3	\$ —	\$ 233.3
Receivables, net	—	29.4	—	130.8	—	160.2
Inventories, net	—	22.0	—	160.4	(12.9)	169.5
Other current assets	—	7.0	2.4	20.5	—	29.9
Deferred income taxes, current	—	—	—	7.4	—	7.4
Total current assets	—	205.4	2.4	405.4	(12.9)	600.3
Property, plant and equipment, net	—	73.7	3.4	361.4	—	438.5
Goodwill	—	8.1	69.2	—	—	77.3
Investments and other assets	(153.1)	66.6	38.8	22.8	57.3	32.4
Total assets	\$ (153.1)	\$ 353.8	\$ 113.8	\$ 789.6	\$ 44.4	\$1,148.5
Accounts payable	\$ —	\$ 22.9	\$ 0.5	\$ 113.9	\$ —	\$ 137.3
Accrued expenses and other current liabilities	—	78.7	1.4	82.1	1.7	163.9
Deferred income on sales to distributors	—	32.4	—	64.7	—	97.1
Total current liabilities	—	134.0	1.9	260.7	1.7	398.3
Long-term debt (1)	355.0	610.4	—	27.7	—	993.1
Other long-term liabilities	—	17.8	0.5	13.1	—	31.4
Deferred income taxes	—	—	—	1.2	—	1.2
Intercompany (1)	(207.8)	(414.7)	174.0	243.0	205.5	—
Total liabilities	147.2	347.5	176.4	545.7	207.2	1,424.0
Minority interests in consolidated subsidiaries	—	—	—	—	24.8	24.8
Stockholders' equity (deficit)	(300.3)	6.3	(62.6)	243.9	(187.6)	(300.3)
Liabilities, minority interests and stockholders' equity (deficit)	\$ (153.1)	\$ 353.8	\$ 113.8	\$ 789.6	\$ 44.4	\$1,148.5
As of December 31, 2004						
Cash and cash equivalents	\$ —	\$ 15.1	\$ —	\$ 90.6	\$ —	\$ 105.7
Short-term investments	—	80.0	—	—	—	80.0
Receivables, net	—	35.3	—	96.2	—	131.5
Inventories, net	—	23.6	4.7	181.6	(16.5)	193.4
Other current assets	—	4.8	0.1	18.7	—	23.6
Deferred income taxes, current	—	—	—	2.8	—	2.8
Total current assets	—	158.8	4.8	389.9	(16.5)	537.0
Deferred income tax, non current	—	2.3	—	(2.3)	—	—
Property, plant and equipment, net	—	81.1	10.5	380.4	—	472.0
Goodwill	—	8.1	69.2	—	—	77.3
Investments and other assets	(354.5)	48.5	39.5	25.0	265.3	23.8
Total assets	\$ (354.5)	\$ 298.8	\$ 124.0	\$ 793.0	\$ 248.8	\$1,110.1
Accounts payable	\$ —	\$ 20.4	\$ 3.5	\$ 80.5	\$ —	\$ 104.4
Accrued expenses and other current liabilities	—	74.6	6.3	41.4	1.7	124.0
Deferred income on sales to distributors	—	28.2	—	68.5	—	96.7
Total current liabilities	—	123.2	9.8	190.4	1.7	325.1
Long-term debt (1)	260.0	795.8	—	76.0	—	1,131.8
Other long-term liabilities	—	20.6	—	13.9	—	34.5
Intercompany (1)	(207.8)	(447.8)	150.9	299.4	205.3	—
Total liabilities	52.2	491.8	160.7	579.7	207.0	1,491.4
Minority interests in consolidated subsidiaries	—	—	—	—	25.4	25.4
Redeemable preferred stock	131.1	—	—	—	—	131.1
Stockholders' equity (deficit)	(537.8)	(193.0)	(36.7)	213.3	16.4	(537.8)
Liabilities, minority interests and stockholders' equity (deficit)	\$ (354.5)	\$ 298.8	\$ 124.0	\$ 793.0	\$ 248.8	\$1,110.1

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	Issuers				Eliminations	Total
	ON Semiconductor Corporation (2)	SCI LLC (1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
For the year ended December 31, 2005						
Revenues	\$ —	\$ 421.4	\$ 25.8	\$ 1,638.8	\$ (825.4)	\$1,260.6
Cost of revenues	—	367.3	23.6	1,280.2	(829.0)	842.1
Gross profit	—	54.1	2.2	358.6	3.6	418.5
Research and development	—	20.9	11.1	61.7	—	93.7
Selling and marketing	—	41.8	0.8	36.7	—	79.3
General and administrative	—	18.5	6.4	49.7	—	74.6
Restructuring, asset impairments and other, net	—	1.0	(1.0)	3.3	—	3.3
Total operating expenses	—	82.2	17.3	151.4	—	250.9
Operating income (loss)	—	(28.1)	(15.1)	207.2	3.6	167.6
Interest expense, net	(1.6)	(30.7)	(10.0)	(13.7)	—	(56.0)
Other	—	(1.7)	—	(1.3)	—	(3.0)
Equity in earnings	102.2	156.5	5.8	—	(264.5)	—
Income (loss) before income taxes, minority interests and cumulative effect of accounting change	100.6	96.0	(19.3)	192.2	(260.9)	108.6
Income tax provision	—	1.8	—	(3.3)	—	(1.5)
Minority interests	—	—	—	—	(3.6)	(3.6)
Income (loss) before cumulative effect of accounting change	100.6	97.8	(19.3)	188.9	(264.5)	103.5
Cumulative effect of accounting change, net of income taxes	—	(1.9)	(0.5)	(0.5)	—	(2.9)
Net income (loss)	\$ 100.6	\$ 95.9	\$ (19.8)	\$ 188.4	\$ (264.5)	\$ 100.6
Net cash provided by (used in) operating activities	\$ —	\$ (147.3)	\$ (1.2)	\$ 341.6	\$ —	\$ 193.1
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(13.7)	—	(32.4)	—	(46.1)
Funds deposited for purchases of property, plant and equipment	—	—	—	(1.7)	—	(1.7)
Purchases of held-to-maturity securities	—	(2.1)	—	—	—	(2.1)
Purchases of available-for-sale securities	—	(16.1)	—	—	—	(16.1)
Proceeds from sales of held-to-maturity securities	—	35.3	—	—	—	35.3
Proceeds from sales of available-for-sale securities	—	63.9	—	—	—	63.9
Proceeds from sales of property, plant and equipment	—	1.0	1.2	—	—	2.2
Other	—	—	—	(0.6)	—	(0.6)
Net cash provided by (used in) investing activities	—	68.3	1.2	(34.7)	—	34.8
Cash flows from financing activities:						
Intercompany loans	—	(584.5)	180.0	404.5	—	—
Intercompany loan repayments	—	865.7	(180.0)	(685.7)	—	—
Proceeds from debt issuance	—	95.0	—	—	—	95.0
Proceeds from issuance of common stock under the employee stock purchase plan	—	1.8	—	—	—	1.8
Proceeds from exercise of stock options and warrants	—	4.5	—	—	—	4.5
Dividends to minority shareholder of consolidated subsidiary	—	6.5	—	(10.7)	—	(4.2)
Payment of costs to issue common stock	—	(0.3)	—	—	—	(0.3)
Payment of capital lease obligation	—	(4.7)	—	(0.2)	—	(4.9)
Payment of debt issuance and amendment costs	—	(3.4)	—	—	—	(3.4)
Repayment of long term debt	—	(169.7)	—	(18.4)	—	(188.1)
Equity injections from Parent	—	—	6.5	—	—	6.5
Subsidiary declared dividend	—	—	(6.5)	—	—	(6.5)
Net cash provided by (used in) financing activities	—	210.9	—	(310.5)	—	(99.6)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(0.7)	—	(0.7)
Net increase (decrease) in cash and cash equivalents	—	131.9	—	(4.3)	—	127.6
Cash and cash equivalents, beginning of period	—	15.1	—	90.6	—	105.7
Cash and cash equivalents, end of period	\$ —	\$ 147.0	\$ —	\$ 86.3	\$ —	\$ 233.3

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	Issuers					Total
	ON Semiconductor Corporation (2)	SCI LLC (1)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	
For the year ended December 31, 2004						
Revenues	\$ —	\$ 517.3	\$ 61.6	\$ 1,662.9	\$ (974.9)	\$ 1,266.9
Cost of revenues	—	446.9	45.0	1,329.5	(964.4)	857.0
Gross profit	—	70.4	16.6	333.4	(10.5)	409.9
Research and development	—	20.6	12.8	61.0	—	94.4
Selling and marketing	—	41.8	0.8	31.2	—	73.8
General and administrative	—	15.2	0.5	56.5	—	72.2
Restructuring, asset impairments and other, net	—	12.4	3.4	3.8	—	19.6
Total operating expenses	—	90.0	17.5	152.5	—	260.0
Operating income (loss)	—	(19.6)	(0.9)	180.9	(10.5)	149.9
Interest expense, net	(1.0)	(49.0)	(20.1)	(28.9)	—	(99.0)
Loss on debt prepayment	—	(159.7)	—	—	—	(159.7)
Other	—	5.2	—	(9.4)	—	(4.2)
Equity in earnings	(122.7)	94.5	5.7	—	22.5	—
Income (loss) before income taxes and minority interests	(123.7)	(128.6)	(15.3)	142.6	12.0	(113.0)
Income tax provision	—	1.4	—	(8.8)	—	(7.4)
Minority interests	—	—	—	—	(3.3)	(3.3)
Net income (loss)	\$ (123.7)	\$ (127.2)	\$ (15.3)	\$ 133.8	\$ 8.7	\$ (123.7)
Net cash provided by (used in) operating activities	\$ —	\$ (163.9)	\$ 2.5	\$ 199.8	\$ —	\$ 38.4
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(28.7)	(1.8)	(51.3)	—	(81.8)
Deposits utilized for purchases of property, plant and equipment	—	6.4	—	—	—	6.4
Purchases of held-to-maturity securities	—	(40.8)	—	—	—	(40.8)
Purchases of available-for-sale securities	—	(261.9)	—	—	—	(261.9)
Proceeds from sales of held-to-maturity securities	—	8.8	—	—	—	8.8
Proceeds from sales of available-for-sale securities	—	214.3	—	—	—	214.3
Proceeds from sales of property, plant and equipment	—	4.2	—	0.2	—	4.4
Other	—	—	—	—	—	—
Net cash used in investing activities	—	(97.7)	(1.8)	(51.1)	—	(150.6)
Cash flows from financing activities:						
Intercompany loans	—	(391.1)	—	391.1	—	—
Intercompany loan repayments	—	411.4	—	(411.4)	—	—
Proceeds from debt issuance	—	905.5	—	—	—	905.5
Proceeds from issuance of common stock under the employee stock purchase plan	—	1.9	—	—	—	1.9
Proceeds from exercise of stock options and warrants	—	5.9	—	—	—	5.9
Dividends to minority shareholder of consolidated subsidiary	—	—	—	(4.2)	—	(4.2)
Proceeds from issuance of common stock, net of issuance costs	—	228.2	—	—	—	228.2
Payment of capital lease obligation	—	(6.0)	—	(0.2)	—	(6.2)
Payment of debt issuance and amendment costs	—	(11.0)	—	—	—	(11.0)
Repayment of long term debt	—	(1,080.5)	—	(8.2)	—	(1,088.7)
Equity injections from Parent	—	7.5	—	—	—	7.5
Subsidiary declared dividend	—	86.0	(0.7)	(92.8)	—	(7.5)
Net cash provided by (used in) financing activities	—	157.8	(0.7)	(125.7)	—	31.4
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(0.1)	—	(0.1)
Net increase (decrease) in cash and cash equivalents	—	(103.8)	0.0	22.9	—	(80.9)
Cash and cash equivalents, beginning of period	—	118.9	—	67.7	—	186.6
Cash and cash equivalents, end of period	\$ —	\$ 15.1	\$ 0.0	\$ 90.6	\$ —	\$ 105.7

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

	Issuers				Eliminations	Total
	ON Semiconductor Corporation (2)	SCI LLC (1)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
For the year ended December 31, 2003						
Revenues	\$ —	\$ 480.2	\$ 92.9	\$ 1,407.7	\$ (911.7)	\$1,069.1
Cost of revenues	—	455.5	44.4	1,187.0	(918.5)	768.4
Gross profit	—	24.7	48.5	220.7	6.8	300.7
Research and development	—	25.1	13.6	46.8	—	85.5
Selling and marketing	—	34.9	0.5	27.6	—	63.0
General and administrative	—	24.9	0.2	44.1	—	69.2
Amortization of goodwill and other intangibles	—	—	5.9	—	—	5.9
Restructuring, asset impairments and other, net	—	11.3	39.9	10.0	—	61.2
Total operating expenses	—	96.2	60.1	128.5	—	284.8
Operating income (loss)	—	(71.5)	(11.6)	92.2	6.8	15.9
Interest expense, net	—	(100.3)	(19.0)	(29.8)	—	(149.1)
Loss on debt prepayment	—	(7.7)	—	—	—	(7.7)
Other	—	10.0	—	(5.4)	—	4.6
Equity in earnings	(166.7)	24.8	4.8	(1.0)	138.1	—
Income (loss) before income taxes, minority interests and cumulative effect of accounting change	(166.7)	(144.7)	(25.8)	56.0	144.9	(136.3)
Income tax provision	—	(6.5)	—	(1.2)	—	(7.7)
Minority interests	—	—	—	—	(1.2)	(1.2)
Income (loss) before cumulative effect of accounting change	(166.7)	(151.2)	(25.8)	54.8	143.7	(145.2)
Cumulative effect of accounting change, net of income taxes	—	(20.0)	—	(1.5)	—	(21.5)
Net income (loss)	\$ (166.7)	\$ (171.2)	\$ (25.8)	\$ 53.3	\$ 143.7	\$ (166.7)
Net cash provided by (used in) operating activities	\$ —	\$ (69.0)	\$ 6.6	\$ 108.1	\$ —	\$ 45.7
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(21.6)	(6.6)	(31.6)	—	(59.8)
Funds deposited for purchases of property, plant and equipment	—	(6.8)	—	—	—	(6.8)
Proceeds from sales of property, plant and equipment	—	—	—	13.2	—	13.2
Other	—	(1.8)	—	—	—	(1.8)
Net cash used in investing activities	—	(30.2)	(6.6)	(18.4)	—	(55.2)
Cash flows from financing activities:						
Intercompany loans	—	(301.8)	—	301.8	—	—
Intercompany loan repayments	—	442.0	—	(442.0)	—	—
Proceeds from debt issuance, net of discount	—	290.4	—	48.0	—	338.4
Proceeds from issuance of common stock under the employee stock purchase plan	—	1.2	—	—	—	1.2
Proceeds from exercise of stock options and warrants	—	5.6	—	—	—	5.6
Proceeds from issuance of common stock, net of issuance costs	—	157.2	—	—	—	157.2
Payment of capital lease obligation	—	(0.2)	—	—	—	(0.2)
Payment of debt issuance costs	—	(15.3)	—	—	—	(15.3)
Repayment of long term debt	—	(482.5)	—	—	—	(482.5)
Net cash provided by (used in) financing activities	—	96.6	—	(92.2)	—	4.4
Effect of exchange rate changes on cash and cash equivalents	—	—	—	1.3	—	1.3
Net decrease in cash and cash equivalents	—	(2.6)	—	(1.2)	—	(3.8)
Cash and cash equivalents, beginning of period	—	121.5	—	68.9	—	190.4
Cash and cash equivalents, end of period	\$ —	\$ 118.9	\$ —	\$ 67.7	\$ —	\$ 186.6

- For purposes of this presentation, the Senior Subordinated Notes, Second-Lien Notes and First-Lien Notes have been reflected in the condensed balance sheets of both the Company and SCI LLC with the appropriate offset reflected in the eliminations column. Interest expense and debt discount amortization has been allocated to SCI LLC only. For purposes of the zero coupon convertible senior subordinated notes, SCI LLC is a guarantor but not an issuer.
- The Company is a holding company and has no operations apart from those of its operating subsidiaries. Additionally, the Company does not maintain a bank account; rather, SCI LLC, its primary operating subsidiary, processes all of its cash receipts and disbursements on its behalf.

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

Note 8: Income Taxes

Geographic sources of income (loss) before income taxes, minority interests and cumulative effect of accounting change are as follows (in millions):

	Year ended December 31,		
	2005	2004	2003
United States	\$ (86.7)	\$(245.8)	\$(190.0)
Foreign	195.3	132.8	53.7
	<u>\$108.6</u>	<u>\$(113.0)</u>	<u>\$(136.3)</u>

The provision (benefit) for income taxes is as follows (in millions):

	Year ended December 31,		
	2005	2004	2003
Current			
Federal	\$ —	\$ (9.0)	\$ —
State and local	(0.1)	—	(0.1)
Foreign	7.3	12.9	7.1
	<u>7.2</u>	<u>3.9</u>	<u>7.0</u>
Deferred			
Federal	—	—	—
State and local	—	—	—
Foreign	(5.7)	3.5	0.7
	<u>(5.7)</u>	<u>3.5</u>	<u>0.7</u>
	<u>\$ 1.5</u>	<u>\$ 7.4</u>	<u>\$ 7.7</u>

A reconciliation of the U.S. federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Year ended December 31,		
	2005	2004	2003
U.S. federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State and local taxes, net of federal tax benefit	(0.1)	0.2	8.8
Foreign withholding taxes	0.3	(0.1)	(0.5)
Foreign rate differential	(55.5)	38.4	0.8
Dividend income from foreign subsidiaries	61.8	(30.4)	—
Change in valuation allowance	(37.9)	(48.5)	(53.1)
Other	(2.2)	(1.1)	3.4
	<u>1.4%</u>	<u>(6.5)%</u>	<u>(5.6)%</u>

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

The tax effects of temporary differences in the recognition of income and expense for tax and financial reporting purposes that give rise to significant portions of the deferred tax assets, net of deferred tax liabilities as of December 31, 2005 and December 31, 2004 are as follows (in millions):

	Year ended December 31,	
	2005	2004
Net operating loss and tax credit carryforwards	\$ 424.2	\$ 416.8
Tax-deductible goodwill	170.6	195.6
Reserves and accruals	9.9	13.5
Property, plant and equipment	47.1	38.2
Inventories	22.6	21.2
Other	1.0	9.8
	<hr/>	<hr/>
Gross deferred tax assets	\$ 675.4	\$ 695.1
Valuation allowance	(669.2)	(694.6)
	<hr/>	<hr/>
Net deferred tax asset	\$ 6.2	\$ 0.5

A valuation allowance has been recorded against the Company's deferred tax assets, with the exception of deferred tax assets at certain foreign subsidiaries, as management believes it is more likely than not that these assets will not be realized. As of December 31, 2005, the Company had \$20.0 million of valuation allowance related to stock option deductions, which, if realized, will be accounted for as an addition to equity rather than as a reduction to the provision for income taxes.

As of December 31, 2005, the Company's federal, state, and foreign net operating loss carryforwards ("NOLs") were \$994.0 million, \$1,060.7 million, and \$1.5 million, respectively. If not utilized, these NOLs will expire in varying amounts from 2007 through 2025. Pursuant to Sections 382 and 383 of the Internal Revenue Code, the utilization of NOLs and other tax attributes may be subject to substantial limitations if certain ownership changes occur during a three-year testing period (as defined by the Internal Revenue Code). The Company does not believe an ownership change has occurred as of December 31, 2005 that would limit the Company's utilization of its NOLs or credit carryovers.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. The Company recognizes potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on its estimate of whether, and the extent to which, additional taxes will be due. As of December 31, 2005, the Company has reserves for these potential tax liabilities of \$16.2 million. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. Additionally, the Company reviews the collectibility of its tax receivables due from various jurisdictions and when recovery is uncertain, the Company reserves amounts deemed to be uncollectible. If the receipts of these amounts occur or are assured, the reversal of the reserves previously established would result in a tax benefit in the period. As of December 31, 2005 the Company had allowances for tax receivables of \$9.3 million.

The income tax provision for the year ended December 31, 2005 included \$6.1 million for income and withholding taxes of certain of the Company's foreign operations and \$7.6 million of new reserves for potential liabilities in foreign taxing jurisdictions, partially offset by the reversal of \$9.5 million of previously accrued income taxes for anticipated audit issues and the reversal of a \$2.7 million valuation allowance against deferred tax assets for one of the Company's Japanese subsidiaries that returned to profitability.

During 2005, the Company reassessed its intentions regarding repatriation of undistributed earnings from non-U.S. subsidiaries, concluding that only a portion of 2005 and future earnings will be reinvested indefinitely while the remainder will be repatriated. Thus, except for certain earnings that the Company intends to reinvest

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

indefinitely, provisions have been made for the estimated U.S. federal income taxes applicable to undistributed earnings of non-U.S. subsidiaries. The portion of earnings not reinvested indefinitely upon which deferred income tax has been provided, and thus may be distributed substantially free of additional U.S. federal income taxes, is \$45.0 million. The net deferred income tax provision relating to these earnings is \$0, due to the Company's full valuation allowance on its federal deferred tax assets, described above. The remaining undistributed earnings of approximately \$322.1 million at December 31, 2005 have been indefinitely reinvested; therefore, no provision has been made for taxes due upon remittance of these earnings. Determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

Note 9: Redeemable Preferred Stock

On November 10, 2005, the Company entered into a Conversion and Termination Agreement with an affiliate of TPG to convert the Series A Cumulative Convertible Redeemable Preferred Stock (the "preferred stock"), as described below, into 49.4 million shares of the Company's common stock. To induce the conversion, the Company issued 3.9 million shares of common stock to the affiliate of TPG, which resulted in a \$20.4 million reduction to net income applicable to common stock in 2005, based on the fair value of the inducement shares on November 10, 2005. Following the conversion, none of the authorized shares of the preferred stock remained outstanding. On February 17, 2006, the Board of Directors of the Company resolved that no series or class of the preferred stock will be issued under the Certificate of Designations and authorized the filing of a certificate of elimination for the Certificate of Designation with the Secretary of State of the State of Delaware.

The Company has 100,000 authorized shares of preferred stock. On September 7, 2001, the Company issued 10,000 shares of the preferred stock with a stated value of \$100.0 million to an affiliate of TPG. As of the issuance date, the preferred stock was convertible into 35,460,993 shares of the Company's common stock at a price of \$2.82 per share (subject to specified anti-dilution provisions) and was redeemable at the holder's option any time after September 7, 2009. During the periods the preferred stock was outstanding, the preferred stock had a cumulative dividend payable quarterly in cash, at the rate of 8.0% per annum (or, if greater during the relevant quarterly period, in an amount equal to the value of the dividends that would be paid on the common stock then issuable upon conversion of the preferred stock), compounded to the extent not paid, and subject to restrictions under the Company's senior bank facilities and other documents relating to the Company's indebtedness. There were \$9.2 million, \$9.9 million and \$9.2 million of preferred stock dividends that accrued during the years ended December 31, 2005, 2004 and 2003, respectively.

The Company was required to accrete the value of the preferred stock to its redemption value and record such accretion using a straight-line method over the remaining period until the earliest available redemption date of September 7, 2009. Such accretion, which was influenced by changes in the market price of the Company's common stock, adjusted net income applicable to common stock during the periods the preferred stock was outstanding. Based on the market prices of the Company's common stock, the Company recorded net accretion charges of \$1.5 million and \$0.5 million for the years ended December 31, 2004 and 2003, respectively. During 2005, previously recognized accretion charges of \$1.0 million were reversed as a result of the conversion.

Note 10: Common Stock

On May 3, 2000, the Company completed the initial public offering 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 of the preferred stock then outstanding (including accrued dividends), redeem a portion of the then outstanding 12% Senior Subordinated Notes due in 2009 and prepay a portion of the loans outstanding under the senior bank facilities.

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

On September 23, 2003, the Company completed a public offering (the “September 2003 Equity Offering”) of common stock registered pursuant to its shelf registration statement originally filed with the Securities and Exchange Commission on April 24, 2002 (as amended on March 14, 2003). In connection with this offering, the Company issued approximately 37.0 million shares (including approximately 2.2 million shares issued in connection with the underwriters’ exercise of their option to cover over-allotments) at a price of \$4.50 per share. The net proceeds of the offering were \$156.8 million after deducting the underwriters’ discount of \$8.2 million (\$0.225 per share) and offering expenses of \$1.4 million. After further evaluation, the Company reversed the accrual for unpaid fees of \$0.4 million in 2004, which resulted in net proceeds of \$157.2 million. The Company used the net proceeds to prepay \$152.7 million of its senior bank facilities and to pay \$3.8 million of costs associated with the amendment to its senior bank facilities as described in Note 7: “Long-Term Debt”. In connection with this prepayment, the Company wrote off \$2.5 million of debt issuance costs.

On February 9, 2004, the Company and its principal stockholder, Texas Pacific Group, completed a public offering (the “February 2004 Equity Offering”) of common stock registered pursuant to a shelf registration statement originally filed with the Securities and Exchange Commission on January 2, 2004. In connection with this offering, the Company issued approximately 34.4 million shares (including approximately 0.4 million shares issued in connection with the underwriters’ exercise of their option to cover over-allotments) at a price of \$6.98 per share. The net proceeds from this offering received by the Company were \$227.9 million after deducting the underwriting discount of \$10.8 million (\$0.3141 per share) and offering expenses of \$2.2 million, and \$0.3 million of bank amendment fees that were paid as of December 31, 2004. The Company did not receive any of the proceeds from the sale of shares by the selling stockholder. The Company used the net proceeds to redeem \$70.0 million outstanding principal amount of the first-lien senior secured notes and \$105 million outstanding principal amount of the second-lien senior secured notes, in each case on March 10, 2004 at a redemption price of 112.0% of the principal amount of the notes to be redeemed, together with accrued interest to the redemption date. The Company used the remaining net proceeds for general corporate purposes. In connection with this redemption, the Company wrote off \$12.0 million of debt issuance costs. In connection with the February 2004 Equity Offering, the Company obtained an amendment and waiver under the credit agreement relating to its senior bank facilities as described in Note 7: “Long-Term Debt”.

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

Income (loss) per share calculations for 2005, 2004 and 2003 are as follows (in millions, except per share data):

	2005	2004	2003
Net income (loss) before cumulative effect of accounting change	\$ 103.5	\$ (123.7)	\$ (145.2)
Less: Accretion to redemption value of convertible redeemable preferred stock	1.0	(1.5)	(0.5)
Less: Convertible redeemable preferred stock dividends	(9.2)	(9.9)	(9.2)
Less: Dividend from inducement shares issued upon conversion of convertible redeemable preferred stock (1)	(20.4)	—	—
Less: Allocation of undistributed earnings to preferred shareholders before cumulative effect of accounting change	(10.1)	—	—
Net income (loss) applicable to common stock before cumulative effect of accounting change	64.8	(135.1)	(154.9)
Less: Allocation of undistributed earnings to preferred shareholders applicable to cumulative effect of accounting change	0.4	—	—
Cumulative effect of accounting change	(2.9)	—	(21.5)
Net income (loss) applicable to common stock	62.3	(135.1)	(176.4)
Add: Amortization of debt issuance costs of zero coupon convertible subordinated notes, net of tax	1.5	—	—
Diluted net income (loss) applicable to common stock	\$ 63.8	\$ (135.1)	\$ (176.4)
Basic weighted average common shares outstanding	263.3	247.8	187.4
Add: Incremental shares for:			
Dilutive effect of stock options	7.0	—	—
1.875% convertible senior subordinated notes	—	—	—
Convertible zero coupon senior subordinated notes	26.5	—	—
Diluted weighted average common shares outstanding	296.8	247.8	187.4
Income (loss) per share			
Basic:			
Net income (loss) applicable to common stock before cumulative effect of accounting change	\$ 0.25	\$ (0.55)	\$ (0.83)
Cumulative effect of accounting change	(0.01)	—	(0.11)
Net income (loss) applicable to common stock	\$ 0.24	\$ (0.55)	\$ (0.94)
Diluted:			
Net income (loss) applicable to common stock before cumulative effect of accounting change	\$ 0.22	\$ (0.55)	\$ (0.83)
Cumulative effect of accounting change	(0.01)	—	(0.11)
Net income (loss) applicable to common stock	\$ 0.21	\$ (0.55)	\$ (0.94)

(1) Dividend from inducement shares issued upon conversion of convertible redeemable preferred stock of \$20.4 million in 2005 is the fair value of approximately 3.9 million shares issued to TPG on November 10, 2005 as discussed in "Note 9: Redeemable Preferred Stock".

Basic income (loss) per share is computed by dividing net income (loss), adjusted for the accretion to redemption value and dividends related to the Company's preferred stock, by the weighted average number of common shares outstanding during the period. In periods in which the Company generates income, the two-class method is used to calculate basic earnings per share whereby net income, adjusted for the accretion to redemption value and dividends related to the Company's preferred stock, is allocated on a pro-rata basis between common and preferred stockholders, as required by Emerging Issues Task Force ("EITF") Issue 03-6, due to the preferred stockholders' right to participate in dividends declared on the Company's common stock. The retroactive adoption of Issue 03-6 in 2004 did not impact prior periods due to net losses in those periods.

Diluted loss per share generally would assume the conversion of the preferred stock into common stock if dilutive and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options and upon the assumed conversion of the zero coupon convertible senior subordinated notes. However, since basic earnings per share under the two-class method is lowered due to the allocation of undistributed

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

earnings to preferred stockholders in periods the preferred stock was outstanding, the impact to diluted earnings per share of the assumed conversion of the convertible redeemable preferred stock into common stock will generally be anti-dilutive, and therefore is excluded from the calculation of diluted earnings per share. For the assumed conversion of the zero coupon convertible senior subordinated notes, \$1.5 million of amortization expense of debt issuance costs for the year ended December 31, 2005 was added back to net income to calculate diluted earnings per share.

The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. For 2004 and 2003 the effect of stock option shares were not included as the related impact would have been anti-dilutive as the Company generated a net loss in those periods. Had the Company generated net income during the years ended December 31, 2004 and 2003, the assumed exercise of stock options would have resulted in additional incremental shares of diluted weighted average common shares outstanding as follows (in millions):

	Year Ended December 31,	
	2004	2003
Exercise price below average market price		
Incremental shares from the assumed exercise of stock options	8.4	5.5

Common shares relating to the employee stock options where the exercise price exceeded the average market price of the Company's common shares during these periods were also excluded from the diluted earnings per share calculation. The excluded options were as follows (in millions):

	Year Ended December 31,		
	2005	2004	2003
Exercise price exceeds average market price			
Weighted average common shares represented by the assumed exercise of stock options	12.8	10.3	11.2

In determining diluted earnings per share for the years ended December 31, 2005, 2004 and 2003, the assumed conversion of 41.1 million, 43.8 million and 40.6 million shares, respectively of the preferred stock were also excluded as the related impacts would have been anti-dilutive.

For the year ended December 31, 2004, the assumed conversion of the zero coupon convertible senior subordinated notes into 26.5 million shares was also excluded in determining diluted earnings per share as the conversion would have been anti-dilutive.

For the year ended December 31, 2005, the assumed conversion of the 1.875% convertible senior subordinated notes was also excluded in determining diluted earnings per share. The 1.875% convertible senior subordinated notes are convertible into cash up to the par value of \$95.0 million, based on a conversion price of \$7.00 per share. The excess of fair value over par value is convertible into stock. As of December 31, 2005 the Company's common stock traded below \$7.00; thus, the effects of an assumed conversion would have been anti-dilutive and therefore were excluded.

See *Note 7: Long-Term Debt* for further discussion of the zero coupon convertible senior subordinated notes and the 1.875% convertible senior subordinated notes.

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

Note 11: Stock Options

The Company adopted the ON Semiconductor 1999 Founders Stock Option Plan (“the 1999 Plan”), which is an incentive plan for key employees, directors and consultants. A total of 11.6 million shares of the Company’s common stock have been reserved for issuance under the 1999 Plan. The 1999 Plan is administered by the Board of Directors or a committee thereof, which is authorized to, among other things, select the key employees, directors and consultants who will receive grants and determine the exercise prices and vesting schedules of the options. Prior to the existence of a public market for the Company’s common stock, the Board of Directors determined fair market value.

On February 17, 2000, the Company adopted the 2000 Stock Incentive Plan (“the 2000 Plan”) which provides key employees, directors and consultants with various equity-based incentives as described in the plan document. The 2000 Plan is administered by the Board of Directors or a committee thereof, which is authorized to determine, among other things, the key employees, directors or consultants who will receive awards under the plan, the amount and type of award, exercise prices or performance criteria, if applicable, and vesting schedules. Through December 31, 2004, stockholders had approved amendments to the 2000 Plan which have increased the number of shares of the Company’s common stock reserved and available for grant to 30.5 million, plus an additional number of shares of the Company’s common stock equal to 3% of the total number of outstanding shares of common stock effective automatically on January 1st of each year beginning January 1, 2005 and ending after January 1, 2010. As of January 1, 2006 and 2005, the number of shares of the Company’s common stock reserved and available for grant increased by 9.3 million and 7.6 million, respectively to 47.5 million and 38.2 million, from 30.5 million shares as of December 31, 2004, in accordance with the approved amendments. The 2000 Plan has also been amended to increase the maximum number of options granted to any one participant during a fiscal year from 1.0 million shares to 2.5 million, and to allow the Board of Directors to adopt a program of exchanging underwater options for newly issued options.

Generally, the options granted under both plans vest over a period of four years. Under the 1999 Plan, all outstanding options and under the 2000 Plan certain outstanding options vest automatically upon a change of control, as defined, provided the option holder is employed by the Company on the date of the change in control. Under the 2000 Plan, certain other outstanding options vest upon a change of control if the Board of Directors of the Company, at its discretion, provides for acceleration of the vesting of said options. Upon the termination of an option holder’s employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability), unless otherwise specified in an option holder’s employment or stock option agreement.

There was an aggregate of 13.6 million, 9.8 million and 10.4 million shares of common stock available for grant under the 1999 Plan and the 2000 Plan at December 31, 2005, 2004 and 2003, respectively.

Additional information with respect to the activity of the Company’s stock option plans is as follows (in millions, except per share data):

	2005		2004		2003	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	25.8	\$ 4.82	23.4	\$ 4.11	22.4	\$ 4.63
Grants	6.2	4.72	7.4	6.45	6.0	2.17
Exercises	(2.0)	2.18	(2.6)	2.32	(1.9)	1.79
Cancellations	(2.4)	5.66	(2.4)	5.63	(3.1)	5.60
Outstanding at end of year	27.6	\$ 4.92	25.8	\$ 4.82	23.4	\$ 4.11
Exercisable at end of year	16.4	\$ 5.69	11.5	\$ 5.11	10.5	\$ 5.04
Weighted average fair value of options granted during the period		\$ 2.25		\$ 3.88		\$ 1.50

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

The following tables summarize options outstanding and options exercisable at December 31, 2005:

	Outstanding Options		
	Number Shares (in millions)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
\$1.03-\$1.50	5.9	3.9	\$ 1.37
\$1.65-\$3.88	5.6	6.8	3.09
\$4.15-\$4.99	5.7	8.8	4.66
\$5.12-\$7.00	4.0	6.9	5.96
\$7.02-\$9.03	4.8	8.0	7.16
\$10.88-\$21.38	1.6	4.4	15.93
Totals	27.6		
		Exercisable Options	
	Number Shares (in millions)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
\$1.03-\$1.50	4.2	2.5	\$ 1.42
\$1.65-\$3.88	3.4	6.2	3.07
\$4.15-\$4.99	0.9	7.4	4.28
\$5.12-\$7.00	2.3	5.7	6.09
\$7.02-\$9.03	4.0	7.9	7.18
\$10.88-\$21.38	1.6	4.4	15.93
Totals	16.4		

These options will expire if not exercised by specific dates through December 2015.

In 2003 and 2004 the Company recorded \$0.1 and \$0.2 million, respectively related to stock option modifications of certain employees.

In 2001, the Company issued warrants to purchase 1,250,000 shares of common stock to consultants for services rendered during 2001, which had an exercise price of \$1.90 per share, were vested at the date of grant and were exercised during 2003.

On February 17, 2000, the Company adopted the 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company's eligible employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of the Company's common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. Employees will be limited to annual purchases of \$25,000 under this plan. In addition, during each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to \$6,250 divided by the fair market value of the stock on the first day of the offering period. During 2005, 2004 and 2003, employees purchased approximately 0.5 million, 0.5 million and 0.7 million shares under the plan. Through December 31, 2004, shareholders have approved amendments to the 2000 Employee Stock Purchase Plan which have increased the number of shares of the Company's common stock issuable thereunder to 8.5 million shares. As of December 31, 2005, there were 3.5 million shares available for issuance under the Employee Stock Purchase Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Acceleration of Stock Options

On November 16, 2005, the Company accelerated the vesting of certain unvested and “out-of-the-money” stock options outstanding under the company’s stock plans. The acceleration of vesting applied to all unvested options that had an exercise price per share of \$7.00 or higher, with the exception of options granted to directors, certain officers and employees with options granted under the French provisions in the Company’s 2000 Stock Incentive Plan. As a result of the acceleration, options to purchase approximately 2.5 million shares of the Company’s common stock became exercisable immediately. The weighted average exercise price of the affected options was \$7.04 per share. In making the decision to accelerate these options, the Board of Directors believed it was in the best interest of the stockholders to reduce the future earnings impact resulting from the planned adoption of SFAS 123R in the first quarter of 2006, and the resulting impact that this may have on the Company’s market value.

This acceleration of these options that were outstanding on November 16, 2005 will reduce future expenses upon the adoption of FAS 123R on a pre-tax basis as follows:

	Reduction in Non-cash Expense
	(millions)
2006	\$ 3.6
2007	3.6
2008	0.3
Total	\$ 7.5

The accelerated vesting of these options does not result in a charge in the current period based on generally accepted accounting principles, but increased pro-forma stock-based employee compensation expense determined in accordance with SFAS No. 123. See “Note 3: Significant accounting policies” *Stock-Based Compensation* for further discussion.

Note 12: Employee Benefit Plans**Defined Benefit Plans**

Benefits under all of the Company’s plans are valued utilizing the projected unit credit cost method. The Company’s policy is to fund its defined benefit plans in accordance with local requirements and regulations. The Company expects to contribute \$2.0 million in 2006. As discussed below, the 2006 funding is primarily driven by the Company’s current assessment of the economic environment and projected benefit payments of its foreign subsidiaries. The ON Semiconductor Grandfathered Pension Plan (the “Grandfathered Plan”) has been terminated, which termination was approved by the Pension Benefit Guaranty Corporation in 2005 and determined by the Internal Revenue Service not to adversely affect its qualification for federal tax purposes. All liabilities have been settled and all plan assets belonging to the Grandfathered Plan had been used to complete the termination as of December 31, 2005. The tables below reflect the final funding of the Grandfathered and distribution of plan assets during 2005. The Company’s measurement date for determining its defined benefit obligations for all plans is December 31 of each year.

Certain of the Company’s foreign subsidiaries provide retirement plans for substantially all of their employees. Such plans conform to local practice in terms of providing minimum benefits mandated by law, collective agreements or customary practice. The assumed rate of return on plan assets for these plans for 2006 is 5.49%. The Company’s expected long-term rate of return on plan assets is updated at least annually, taking into

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
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consideration our asset allocation, historical returns on similar types of assets and the current economic environment. For estimation purposes, we assume our long-term asset mix will generally be consistent with the current mix.

As described in Note 4 “Accounting Changes,” effective January 1, 2003, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations.

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

The following is a summary of the status of the Company’s various pension plans and the net periodic pension cost (dollars in millions):

	Year Ended December 31,								
	2005			2004			2003		
	U.S. Pension Plan	Foreign Pension Plans	Total	U.S. Pension Plan	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Service cost	\$ —	\$ 1.0	\$ 1.0	\$ 1.5	\$ 0.9	\$ 2.4	\$ 1.7	\$ 1.3	\$ 3.0
Interest cost	1.5	0.9	2.4	2.0	0.9	2.9	2.4	0.9	3.3
Expected return on plan assets	—	(0.5)	(0.5)	(0.5)	(0.2)	(0.7)	(0.5)	(0.3)	(0.8)
Amortization of prior service cost		0.4	0.4	0.1	0.3	0.4	0.1	0.3	0.4
Curtailement gain	—	—	—	0.7	(0.6)	0.1	—	—	—
Cumulative effect of accounting change	—	—	—	—	—	—	20.0	1.5	21.5
Other losses (gains)	(0.8)	(0.4)	(1.2)	2.5	(0.4)	2.1	(0.9)	—	(0.9)
Total net periodic pension cost	\$ 0.7	\$ 1.4	\$ 2.1	\$ 6.3	\$ 0.9	\$ 7.2	\$ 22.8	\$ 3.7	\$26.5
Weighted average assumptions									
Discount rate	—	4.39%		4.86%	4.32%		5.16%	4.29%	
Expected return on plan assets	—	5.49%		2.50%	3.47%		2.50%	5.73%	
Rate of compensation increase	—	3.35%		3.00%	3.18%		3.00%	3.17%	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

	December 31,					
	2005			2004		
	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Change in projected benefit obligation						
Projected benefit obligation at the beginning of the year	\$ 39.8	\$ 23.7	\$ 63.5	\$ 39.5	\$ 22.6	\$62.1
Service cost	—	1.0	1.0	1.5	0.9	2.4
Interest cost	1.5	0.9	2.4	2.0	0.9	2.9
Net actuarial (gain) or loss	—	0.6	0.6	2.3	(0.1)	2.2
Settlement gain	(0.4)	—	(0.4)	—	(0.6)	(0.6)
Benefits paid	(40.9)	(0.8)	(41.7)	(5.5)	(0.4)	(5.9)
Translation (gain) loss	—	(1.9)	(1.9)	—	0.4	0.4
Projected benefit obligation at the end of the year	\$ —	\$ 23.5	\$ 23.5	\$ 39.8	\$ 23.7	\$63.5
Accumulated benefit obligation at the end of the year	\$ —	\$ 20.0	\$ 20.0	\$ 39.8	\$ 20.3	\$60.1
Change in plan assets						
Fair value of plan assets at the beginning of the year	\$ 19.3	\$ 8.1	\$ 27.4	\$ 13.7	\$ 5.8	\$19.5
Actual return on plan assets	0.5	1.5	2.0	0.2	0.6	0.8
Benefits paid from plan assets	(40.9)	(0.8)	(41.7)	(5.5)	(0.4)	(5.9)
Employer contributions	21.1	2.1	23.2	10.9	2.0	12.9
Translation gain (loss)	—	(0.9)	(0.9)	—	0.1	0.1
Fair value of plan assets at the end of the year	\$ —	\$ 10.0	\$ 10.0	\$ 19.3	\$ 8.1	\$27.4

	December 31,					
	2005			2004		
	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Net amount recognized						
Funded status	\$ —	\$(13.5)	\$(13.5)	\$(20.5)	\$(15.6)	\$(36.1)
Unrecognized prior service cost	—	1.1	1.1	—	1.5	1.5
Net amount recognized	\$ —	\$(12.4)	\$(12.4)	\$(20.5)	\$(14.1)	\$(34.6)
Amounts recognized in the statement of financial position						
Accrued benefit liability	\$ —	\$ (1.9)	\$ (1.9)	\$(20.5)	\$ (1.6)	\$(22.1)
Other long-term liabilities	—	(10.5)	(10.5)	—	(12.5)	(12.5)
Net amount recognized	\$ —	\$(12.4)	\$(12.4)	\$(20.5)	\$(14.1)	\$(34.6)
Weighted average assumptions at the end of the year						
Discount rate	0.00%	4.39%		4.86%	4.32%	
Rate of compensation increase	0.0%	3.35%		0.0%	3.07%	

The assets of the Company's Grandfathered Plan were invested in short-term fixed income securities at December 31, 2004. As of December 31, 2005 and 2004, respectively, the assets of the Company's foreign plans were invested in 46% and 39% equity securities, 43% and 48% debt securities and 11% and 13% in other investments, which included investment contracts and other short-term investments. This asset allocation is based on the anticipated required funding amounts, timing of benefit payments, historical returns on similar assets and the current economic environment.

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The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$20.2 million, \$18.7 million, and \$7.4 million, respectively, as of December 31, 2005 and \$60.6 million, \$59.0 million, and \$25.3 million, respectively as of December 31, 2004.

The expected benefits for the Company's defined benefit plans by year from 2006 through 2010 and the five years thereafter are as follows (in millions):

Expected benefit payments	
2006	\$ 1.9
2007	0.9
2008	1.0
2009	1.4
2010	1.1
5 years thereafter	9.3
Total	\$15.6

The Company recognizes a minimum liability in its financial statements for its underfunded pension plans. The total accrued pension liability was \$12.4 million and \$34.6 million at December 31, 2005 and 2004, respectively. The Company's expected contributions to fund the accrued pension liability by year from 2006 through 2010 and the five years thereafter are as follows (in millions):

2006	\$ 3.0
2007	3.0
2008	3.0
2009	3.0
2010	0.4
Thereafter	—
Total	\$12.4

Defined Contribution Plans

The Company has a deferred compensation savings plan ("the Savings Plan") for all eligible U.S. employees established under the provisions of Section 401(k) of the Internal Revenue Code. Eligible employees may contribute a percentage of their salary subject to certain limitations. The Company has elected to have a discretionary matching contribution of 100% of the first 3% of employee contributions and, if certain financial goals are achieved, up to an additional 50% of the next 6% of employee contributions. The Company recognized \$3.8 million, \$3.2 million and \$3.3 million of expense relating to matching contributions in 2005, 2004 and 2003, respectively.

Certain foreign subsidiaries have defined contribution plans in which eligible employees participate. The Company recognized compensation expense of \$0.4 million, \$0.2 million and \$0.4 million relating to these plans for the years ended 2005, 2004 and 2003, respectively.

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Note 13: Financial Instruments**Foreign Currencies**

As a multinational business, the Company's transactions are denominated in a variety of currencies. When appropriate, the Company uses forward foreign currency contracts to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. The Company's policy prohibits trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure.

Prior to the fourth quarter of 2003, the Company's foreign subsidiaries provided forecasts of their foreign currency exposures. The Company then aggregated the forecasted amounts and entered into foreign currency contracts in order to create an offset to the underlying exposures. Losses or gains on the underlying cash flows or investments offset gains or losses on the financial instruments. Beginning in the fourth quarter of 2003, the Company modified its foreign exchange management program so that aggregate foreign currency exposures are compared against bank forecasted foreign currency exchange rates for the next three months. If the forecasted movements are unfavorable, the Company may decide to hedge all or a portion of the applicable foreign currency exposure. The Company primarily hedges existing assets and liabilities and cash flows associated with transactions currently on its balance sheet.

At December 31, 2005 and 2004, the Company had net outstanding foreign exchange contracts with notional amounts of \$11.7 million and \$28.4 million, respectively. Such contracts were obtained through financial institutions and were scheduled to mature within three months. Management believes that these financial instruments should not subject the Company to increased risks from foreign exchange movements because gains and losses on these contracts, should offset losses and gains on the assets, liabilities and transactions being hedged. The following schedule shows the Company's net foreign exchange positions in U.S. dollars as of December 31, 2005 and 2004 (in millions):

	December 31,	
	2005 Buy (Sell)	2004 Buy (Sell)
Japanese Yen	\$ (1.2)	\$ (3.9)
Euro	(17.2)	(20.0)
Taiwan Dollar	—	(4.5)
Czech Koruna	3.7	—
Slovakia Koruna	3.0	—
	<u>\$ (11.7)</u>	<u>\$ (28.4)</u>

The Company is exposed to credit-related losses if counterparties to its foreign exchange contracts fail to perform their obligations. At December 31, 2005, the counterparty on the Company's foreign exchange contracts is a highly rated financial institution and no credit-related losses are anticipated. Amounts payable or receivable under the contracts are included in other current assets or accrued expenses in the accompanying consolidated balance sheet. For 2005, 2004 and 2003, realized and unrealized foreign currency transaction gains (losses) totaled \$(3.5) million, \$(4.2) million and \$4.6 million, respectively.

Interest Rate Agreements

As a part of the Company's risk mitigation strategy, from time to time the Company enters into interest rate swap agreements. During the fourth quarter of 2004, the Company entered into a series of thirty interest rate swap agreements with notional amounts ranging from \$210.0 million to \$12.5 million each. Each interest rate swap agreement is a floating-to-fixed rate agreement based on LIBOR, and has a one-quarter duration prior to expiration. Each quarter, two interest rate swap agreements are in force through September 2008, with separate

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high quality counterparties to diversify risks. The total notional amount of the two interest rate swap agreements in force as of December 31, 2005 and 2004 was \$320.0 million and \$420.0 million, respectively. The counterparties on these interest rate swap agreements are highly rated financial institutions.

These interest rate swap agreements are designated cash flow hedges protecting cash flows arising from the underlying variable rate debt. The floating rate component of the swap interest rates are set in parallel with the underlying debt ensuring effectiveness of the floating rate components of both swap and debt and interest rates and are set on the same day at the end of each quarter. The fixed rate component of the swap agreements were predefined at execution. The notional amounts are used as the basis for which the payment streams are calculated and exchanged; however, the notional amount is not a measure of the exposure to the Company because future growth in cash on the balance sheet coupled with scheduled principal payments on the debt serves as a partial offset to interest expense increases. Thus, hedges of the original notional amount are not required to protect the Company from risk while maintaining its targeted fixed-to-floating debt mix.

Amounts to be paid or received under each contract are recorded either in other current assets or in accrued expenses, within the accompanying consolidated balance sheet, and as an adjustment to interest expense.

Other

At December 31, 2005, the Company had no outstanding commodity derivatives, currency swaps or options relating to either its debt instruments or investments. The Company does not hedge the value of its equity investments in its subsidiaries or affiliated companies.

Note 14: Fair Value of Financial Instruments

The Company uses the following methods to estimate the fair values of its financial instruments:

Cash and cash equivalents

The carrying amount approximates fair value due to the short-term maturities of such instruments.

Short-term Investments

The fair values of the Company's short-term investments are determined by obtaining quoted market prices of such instruments.

Long-term Debt, Including Current Portion

The fair values of the Company's long-term borrowings are determined by obtaining quoted market prices if available or market prices for comparable debt instruments.

Foreign Currency Exchange Contracts

Forward foreign exchange contracts are valued at current foreign exchange rates for contracts with similar maturities.

Interest Rate Agreements

The fair values of the Company's interest rate swaps represent the amounts at which they could be settled and are estimated by obtaining quotes from brokers.

Series A Cumulative Convertible Redeemable Preferred Stock

The fair value of the Company's cumulative convertible redeemable preferred stock as of December 31, 2004 was estimated as the sum of the present value of the related future cash flows discounted at a rate for a financial instrument with similar characteristics plus the estimated fair value of the conversion option using the Black Scholes option-pricing model.

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The carrying amounts and fair values of the Company's financial instruments at December 31, 2005 and 2004 are as follows (in millions):

	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term investments	\$ —	\$ —	\$ 80.0	\$ 79.9
Long-term debt, including current portion	(1,067.0)	(1,019.0)	(1,151.8)	(1,156.9)
Foreign currency exchange contracts	(0.2)	(0.2)	(0.1)	(0.1)
Interest rate agreements	3.8	3.8	(0.7)	(0.7)
Series A preferred stock	—	—	(131.1)	(218.8)

Note 15: Commitments and Contingencies

Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of December 31, 2005 (in millions):

Year ending December 31,	
2006	\$ 7.0
2007	2.3
2008	1.7
2009	0.9
2010	0.6
Thereafter	1.4
Total (1)	\$13.9

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

The Company's existing leases do not contain significant restrictive provisions; however, certain leases contain renewal options and provisions for payment by the Company of real estate taxes, insurance and maintenance costs. Total rent expense associated with operating leases for 2005, 2004 and 2003 was \$7.2 million, \$9.2 million, and \$13.3 million, respectively.

Other Contingencies

The Company's manufacturing facility in Phoenix, Arizona is located on property that is a "Superfund" site, a property listed on the National Priorities List and subject to clean-up activities under the Comprehensive Environmental Response, Compensation, and Liability Act. Motorola is actively involved in the cleanup of on-site solvent contaminated soil and groundwater and off-site contaminated groundwater pursuant to consent decrees with the State of Arizona. As part of the August 4, 1999 recapitalization, Motorola has retained responsibility for this contamination, and has agreed to indemnify the Company with respect to remediation costs and other costs or liabilities related to this matter.

Manufacturing facilities in Slovakia and in the Czech Republic have ongoing remediation projects to respond to releases of hazardous substances that occurred during the years that these facilities were operated by

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

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

Indemnification Contingencies

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

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

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

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

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

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financial condition, results of operations or cash flows. Additionally, the Company does not believe that any amounts that it may be required to pay under these indemnities in the future will be material to the Company's business, financial condition, results of operations or cash flows.

Legal Matters

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

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

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

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

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds, as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. The Company expects that its insurance proceeds will be sufficient for these purposes and that the Company will not otherwise be required to contribute to the proposed settlement.

Consummation of the proposed settlement is conditioned upon obtaining approval by the Court. On September 1, 2005, the Court preliminarily approved the proposed settlement, directed that notice of the terms of the proposed settlement be provided to class members, and scheduled a fairness hearing for April 24, 2006, at which objections to the proposed settlement will be heard. Thereafter, the Court will determine whether to grant final approval to the proposed settlement.

If the proposed settlement described above is not consummated, the Company intends to continue to defend the litigation vigorously. While the Company can make no promises or guarantees as to the outcome of these proceedings, the Company believes that the final result of these actions will have no material effect on its consolidated financial condition, results of operations or cash flows.

AMS Matter. On March 22, 2005, the Company entered into a settlement agreement with Austriamicrosystems, AG ("AMS") regarding a pending lawsuit. Under the settlement agreement the Company paid AMS \$2.4 million in cash upon the signing of the agreement. The Company had previously reserved \$2.5 million as a reasonable loss estimate of the loss exposure for this matter. The settlement agreement includes, among other things, a full and complete mutual release of any and all claims, except for any claims arising out of the arbitration described below. It also provides that the pending litigation will be dismissed with prejudice and each party will bear its own costs and fees incurred in connection with the litigation. The dismissal occurred shortly after the signing of the agreement. The settlement agreement requires that the Company and AMS enter into final, binding and non-appealable arbitration limited to one unresolved issue associated with the pending litigation. The arbitration is currently anticipated to be held during the second quarter of 2006. If the arbitrator rules in favor of AMS, the Company will pay an additional \$2.2 million within fifteen days of the ruling by the arbitrator. If the arbitrator rules in favor of the Company, AMS will not be entitled to any additional amounts of

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

money from the Company. Each party shall bear its own costs and fees incurred in connection with the arbitration, and the parties will each pay fifty percent of the costs and fees of the arbitrator.

The matter originated out of an action filed in October 2003 in Arizona Superior Court by AMS against the Company. The complaint (i) alleged that the Company breached a foundry agreement entered into in 2000 under which AMS was to provide services to the Company, and (ii) claimed tortious interference with contract. The complaint sought approximately \$5.8 million in contract damages, plus interest, costs, attorneys' fees and exemplary damages. The Company plans to vigorously defend itself at the arbitration and believes that it will prevail at the proceeding, although there can be no assurances that this will in fact occur. The Company believes that the outcome will not have a material adverse effect on its consolidated financial condition, results of operation or cash flows.

Other Matters. On September 30, 2005, the Company entered into a settlement agreement with one of its customers and one of their customers, resolving a potential claim against the Company for costs incurred in remedying certain alleged failures of products purchased directly or indirectly from the Company. The potential claim, which was estimated by the Company's customer to aggregate approximately \$31.2 million. Under the settlement agreement, the Company agreed to pay its customer's customer \$2.5 million in cash and each party agreed to bear its own costs and expenses in connection with the claim. At the same time, the Company entered into separate agreements with its customer, in part as a result of the claim and in part in an effort to increase the Company's business with the customer, pursuant to which the Company agreed to (i) provide certain rebates to the customer for products and services purchased from the Company by them for a period of five years beginning October 1, 2005, and (ii) rebate not less than \$2.5 million in cash (regardless of actual purchases) no later than September 25, 2006. The amounts were considered to be warranty claims resulting in a warranty expense of \$5.0 million during the year ended December 31, 2005.

Note 16: Related Party Transactions

As described in *Note 1: Background and Basis of Presentation*, On August 4, 1999, certain related transactions were effected pursuant to an agreement among the Company, SCI LLC and TPG. As of December 31, 2005, TPG owned approximately 53% of the Company's outstanding shares of common stock.

In connection with the amendment to the Company's senior bank facilities in August 2001, any management fees payable to TPG or its affiliates by the Company will not accrue and not be payable in cash until the Company's quarterly financial statements demonstrate that certain financial ratios have been achieved. TPG subsequently agreed that these fees will not accrue during the period in which the Company was not permitted to pay such fees in cash. During 2004, no TPG management fee was paid or accrued. During the fourth quarter of 2004, the Company met the requisite conditions under its amended debt agreements to allow for such annual management fee to resume. However, no services were performed by TPG during the fourth quarter of 2004, and accordingly no annual management fees were accrued for or paid during the year. Subsequent to December 31, 2004, TPG waived the right to any future management fee subject to the Company paying certain costs and expenses associated with a resale shelf registration statement of the Company's common stock presently owned by TPG.

During 2004 the Company incurred approximately \$0.2 million of costs and expenses on behalf of TPG in connection with the March 2004 registration with the Securities and Exchange Commission of approximately 111.8 million shares of the Company's common stock, which are owned by TPG. During 2005, the Company incurred \$0.3 million of costs and expenses associated with the conversion of the redeemable preferred stock held by TPG into approximately 49.4 million shares of the Company's common stock and the issuance of

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

approximately 3.9 million shares of the Company's common stock to TPG for the related inducement, as described in Note 9: "Redeemable Preferred Stock".

During 2003, Motorola sold its shares of the Company's common stock it obtained as a result of the recapitalization (described in *Note 1: Background and Basis of Presentation*) and is no longer a related party. Therefore, related party activities between the Company and Motorola are presented as follows (in millions) only for the year ended December 31, 2003 when Motorola was a related party:

	Year ended December 31, 2003
Cash paid for:	
Purchases of manufacturing services from Motorola	\$ 8.9
Cost of other services, rent and equipment purchased from Motorola	\$ 0.8
Cash received for:	
Freight sharing agreement with Motorola	\$ —
Rental of property and equipment to Motorola	\$ 5.6
Product sales to Motorola	\$ 74.9

Note 17: Supplemental Disclosure of Cash Flow Information

The Company's non-cash financing activities and cash payments for interest and income taxes are as follows (in millions):

	Year ended December 31,		
	2005	2004	2003
Non-cash financing activities:			
Equipment acquired through capital leases	\$ 6.2	\$ 7.6	\$ 6.6
Cash (received) paid for:			
Interest income	\$ (5.5)	\$ (2.3)	\$ (2.4)
Interest expense	51.4	103.1	146.1
Income taxes	4.8	4.5	2.5

For the year ended December 31, 2005, purchases of property, plant and equipment did not include \$22.3 million of purchases that remained unpaid in accounts payable as of December 31, 2005.

On November 10, 2005, the Company's preferred stock was converted into approximately 49.4 million shares of the Company's common stock with approximately 3.9 million additional shares of the Company's common stock issued to induce the conversion. See "Note 9: Redeemable Preferred Stock" for further discussion. The preferred stock had a book value of \$131.1 million as of December 31, 2004. The fair value of the inducement shares on November 10, 2005 was \$20.4 million.

Note 18: Segment Information

The Company is engaged in the design, development, manufacture and marketing of a wide variety of semiconductor components. The Company has four main product lines: power management and standard analog devices, metal oxide semiconductor (MOS) power devices, high frequency clock and data management devices and standard components.

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

The Company re-evaluated its segment disclosures in 2004 in light of EITF Issue 04-10 “Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds” (see Note 3: Significant Accounting Policies). Also, in December 2004 the Company announced the alignment of new divisions in order to gain maximum efficiencies in market and production processes. The Company’s reportable segments are aligned internally as the Integrated Power Group and the Analog Products Group. These segments represent management’s view of the Company’s businesses and inform how it evaluates the progress of its major components. In general, the power management and standard analog product line as well as the high frequency clock and data management product line are aligned under the Analog Products Group, while the MOS power devices product line and the standard components product line are aligned under the Integrated Power Group. The standard logic product unit, however, whose results are included in our Analog Products Group segment, is part of our standard components product line. The standard logic product unit had revenues of approximately \$107.1 million in 2005 and \$89.7 million in 2004.

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

The Company’s wafer manufacturing facilities fabricate integrated circuits for all business units as necessary and their operating costs are reflected in the segments’ cost of revenues on the basis of product costs. Because operating segments are generally defined by the products they design and sell, they do not make sales to each other. The Company does not discretely allocate assets to its operating segments, nor does management evaluate operating segments using discrete asset information.

In addition to the operating segments mentioned above, the Company also operates global operations, sales and marketing, information systems, finance and administration groups that are led by vice presidents who report to the Chief Executive Officer. The expenses of these groups are allocated to the operating segments based on specific and general criteria and are included in the operating results reported below. The aggregate amount of the Company’s goodwill balance of \$77.3 million as of December 31, 2005 and 2004 relates to the Analog Products Group. The Company does not allocate income taxes or interest expense to its operating segments as the operating segments are principally evaluated on operating profit before interest and taxes. Additionally, restructuring, asset impairments and other, net and certain other manufacturing and operating expenses, which includes corporate research and development costs, unallocated inventory reserves and miscellaneous nonrecurring expenses, are not allocated to any product segment.

Information about segments for the years ended December 31, 2005 and December 31, 2004 are as follows, in millions (corresponding information for the year ended December 31, 2003 is not included because it would be impractical to do so as operating expenses were not allocated in the same manner or detail that would allow for comparable disclosure):

	<u>Integrated Power Group</u>	<u>Analog Products Group</u>	<u>Total</u>
Year ended December 31, 2005:			
Revenues from external customers	\$ 700.0	\$ 560.6	\$1,260.6
Segment operating income	\$ 122.4	\$ 109.0	\$ 231.4
Year ended December 31, 2004:			
Revenues from external customers	\$ 705.5	\$ 561.4	\$1,266.9
Segment operating income	\$ 103.1	\$ 93.4	\$ 196.5

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

Revenues from external customers for the Integrated Power Group and for the Analog Products Group for the year ended December 31, 2003 were \$575.3 million and \$493.8 million, respectively.

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

	Year Ended	
	December 31, 2005	December 31, 2004
Operating income for reportable segments	\$ 231.4	\$ 196.5
Unallocated amounts:		
Restructuring, asset impairments and other, net	(3.3)	(19.6)
Other unallocated manufacturing costs	(51.8)	(11.5)
Other unallocated operating expenses	(8.7)	(15.5)
Operating income	\$ 167.6	\$ 149.9

The increase in other unallocated manufacturing costs from \$11.5 million in 2004 to \$51.8 million in 2005 was due primarily to manufacturing costs the Company continued to incur at the East Greenwich, Rhode Island manufacturing facility in 2005 beyond the original anticipated closure date of that facility, which were not allocated to the reportable segments. As discussed previously, the closure of the East Greenwich facility was completed in the fourth quarter of 2005 and all of the production from this facility was transferred to lower cost manufacturing facilities.

The Company operates in various geographic locations. Sales to unaffiliated customers have little correlation with the location of manufacturers. It is, therefore, not meaningful to present operating profit by geographic location. The Company conducts a substantial portion of its operations outside of the United States and is subject to risks associated with non-U.S. operations, such as political risks, currency controls and fluctuations, tariffs, import controls and air transportation.

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

	Year ended December 31,		
	2005	2004	2003
United States	\$ 294.8	\$ 343.4	\$ 317.6
The Other Americas	4.2	4.1	4.0
United Kingdom	206.7	116.4	37.0
The Other Europe	0.1	92.7	152.3
Hong Kong	427.2	361.7	252.6
Singapore	142.4	151.3	123.2
The Other Asia/Pacific	185.2	197.3	182.4
	\$ 1,260.6	\$ 1,266.9	\$ 1,069.1

	Year ended December 31,		
	2005	2004	2003
Power Management and Standard Analog	\$ 373.2	\$ 381.3	\$ 333.4
MOS Power Devices	223.2	235.0	152.5
High Frequency Clock and Data Management	80.3	90.4	80.5
Standard Components	583.9	560.2	502.7
	\$ 1,260.6	\$ 1,266.9	\$ 1,069.1

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

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

	December 31,	
	2005	2004
China	\$ 110.6	\$ 116.9
United States	77.1	91.6
Europe	85.6	88.6
Malaysia	74.3	72.4
Japan	64.3	75.0
The Other Asia/Pacific	25.7	25.2
The Other Americas	0.9	2.3
	<u>\$438.5</u>	<u>\$472.0</u>

Sales to Motorola and two other customers accounted for approximately 10%, 9%, and 13%, respectively of the Company's revenue during 2005 compared to approximately 8%, 9% and 12%, respectively during 2004 and approximately 7%, 9% and 13%, respectively during 2003.

ON SEMICONDUCTOR CORPORATION
SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Consolidated quarterly financial information for 2005 and 2004 follows (in millions, except per share data):

	Quarter ended 2005			
	April 1	July 1	September 30	December 31 (4) (5) (6)
Revenues	\$ 302.4	\$ 302.8	\$ 313.6	\$ 341.8
Gross profit	96.2	98.5	104.1	119.7
Net income before cumulative effect of accounting change	14.8	18.5	23.5	46.7
Net income	14.8	18.5	23.5	43.8
Diluted net income before cumulative effect of accounting change per common share	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.08
Diluted net income per common share	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.07
	Quarter ended 2004			
	April 2 (1)	July 2 (2)	October 1	December 31 (3)
Revenues	\$ 308.2	\$ 333.5	\$ 318.4	\$ 306.8
Gross profit	95.9	112.4	103.0	98.6
Net income (loss)	(47.6)	(3.5)	15.7	(88.3)
Diluted net income (loss) per common share	\$ (0.23)	\$ (0.02)	\$ 0.04	\$ (0.36)

- (1) In February 2004, the Company completed a public offering of common stock resulting in net proceeds of \$227.7 million. The net proceeds were used to redeem \$70.0 million outstanding principal amount of the first-lien senior secured notes and \$105 million outstanding principal amount of the second-lien senior secured notes. See Note 10, "Common Stock" for further details of the offering costs and use of proceeds. In March 2004, the Company recorded net charges from restructuring, asset impairments and other of \$13.1 million. The charges included \$12.0 million of loss on sale of fixed assets, \$1.0 million to cover employee separation costs and \$0.1 million of exit costs.
- (2) In April 2004, the Company commenced a cash tender offer for all of its outstanding 12% Senior Subordinated Notes. The Company redeemed the total \$260.0 million due on the notes at 106% of par value, using cash and cash equivalents. In order to finance the offer, the Company issued \$260.0 million in zero coupon convertible senior subordinated notes due 2024 and cash on hand. In June 2004, the Company recorded \$2.3 million in net restructuring, asset impairment and other charges. These charges include \$2.1 million of employee separation charges, \$0.2 million charge to cover costs associated with the separation of one of the Company's executive officers and \$0.2 million in exit costs. These charges were offset by the reversal of \$1.6 million in charges associated with the December 2002 restructuring program for a net charge of \$0.9 million for the quarter. See Note 5, "Restructuring, Asset Impairments and Other, net" for details of the reserve adjustments.
- (3) During the fourth quarter of 2004, the Company recorded net restructuring, asset impairment and other charges of \$5.6 million which include \$3.3 million of asset impairments associated with the Company's restructuring programs, \$1.9 million of exit costs, and \$0.4 million of employee separation charges. In December 2004, the Company refinanced \$645.5 million of term loans under its senior bank facilities, replacing \$320.5 million of its tranche F term loan facility with \$645.5 million of a tranche G term loan facility. Proceeds from the tranche G term loan facility were used to prepay \$130.0 million principal outstanding of the first-lien senior secured notes due 2010 and \$195.0 million principal outstanding of the second-lien senior secured notes due 2008. In connection with this refinancing, the Company incurred \$96.3 million for loss on debt prepayment which was comprised of \$67.2 million in redemption premiums, \$26.2 million in capitalized closing costs and unamortized debt discounts that were written off, \$2.7 million of arrangement fees, dealer manager fees and incentive fees, and \$0.2 million of expenses to third parties.

ON SEMICONDUCTOR CORPORATION
SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) — Continued

- (4) In 2005, the Company adopted FASB Interpretation No. 47 “Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143” (“FIN 47”). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 “Accounting for Asset Retirement Obligations” (“Statement 143”) refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The impact of the adoption of FIN 47 to the Company’s financial condition and results of operations for the quarter and year ended December 31, 2005 was a charge of \$2.9 million, net of an income tax benefit of \$0.3 million.
- (5) Diluted net income per common share before and after cumulative effect of accounting change for the quarter ended December 31, 2005 included the dividend from inducement shares issued upon conversion of convertible redeemable preferred stock of \$20.4 million. On November 10, 2005, the Company entered into a Conversion and Termination Agreement with TPG to convert the preferred stock into 49,364,080 shares of common stock. Additionally, the Company issued 3,949,126 shares of common stock to TPG to induce the conversion of the preferred stock, which had a fair value of \$20.4 million at the date of conversion.
- (6) Net income for the quarter ended December 31, 2005 includes an income tax benefit of \$4.8 million comprised of the reversal of \$9.7 million of previously accrued income taxes for anticipated audit issues and the reversal of \$2.7 million valuation allowance against deferred tax assets for our Japanese subsidiary that returned to profitability, partially offset by \$7.6 million of new reserves for potential liabilities in foreign taxing jurisdictions.

ON SEMICONDUCTOR CORPORATION
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(in millions)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions/ Writeoffs	Balance at End of Period
<i>Allowance for doubtful accounts</i>					
Year ended December 31, 2003	\$ 1.9	\$ 0.5	\$ —	\$ —	\$ 2.4
Year ended December 31, 2004	\$ 2.4	\$ —	\$ —	\$ —	\$ 2.4
Year ended December 31, 2005	\$ 2.4	\$ 2.0	\$ —	\$ —	\$ 4.4(3)
<i>Allowance for deferred tax assets</i>					
Year ended December 31, 2003	\$ 564.4	\$ 72.4	\$ (0.6)(1)	\$ —	\$ 636.2
Year ended December 31, 2004	\$ 636.2	\$ 54.8	\$ 3.6(2)	\$ —	\$ 694.6
Year ended December 31, 2005	\$ 694.6	\$ —	\$ 2.2(2)	\$ (27.6)(5)	\$ 669.2
<i>Allowance for tax receivables</i>					
Year ended December 31, 2003	\$ —	\$ —	\$ —	\$ —	\$ —
Year ended December 31, 2004	\$ —	\$ 9.9	\$ —	\$ —	\$ 9.9
Year ended December 31, 2005	\$ 9.9	\$ 0.1	\$ (0.7)(4)	\$ —	\$ 9.3

- (1) Primarily represents the valuation allowance related to the additional minimum pension liability and effects of cash flow hedges recorded in accumulated other comprehensive loss, partially offset by the valuation allowance related to the cumulative effect of accounting change in 2003 and to the tax benefit for stock options.
- (2) Represents the valuation allowance related to the tax benefit for stock options.
- (3) The allowance for doubtful accounts as of December 31, 2005 includes \$1.6 million of reserves against receivables that are expected to be collected after 2006 and are included in other assets on the consolidated balance sheet.
- (4) Represents the change due to fluctuations of foreign currency values.
- (5) Represents the change in valuation allowance related to the decrease in deferred tax assets, primarily in the United States.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.1	Reorganization Agreement, dated as of May 11, 1999, among Motorola, Inc., SCG Holding Corporation and Semiconductor Components Industries LLC. (incorporated by reference from Exhibit 2.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
2.2	Agreement and Plan of Recapitalization and Merger, as amended, dated as of May 11, 1999, among SCG Holding Corporation, Semiconductor Components Industries, LLC, Motorola, Inc., TPG Semiconductor Holdings LLC, and TPG Semiconductor Acquisition Corp. (incorporated by reference from Exhibit 2.2 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
2.3	Amendment No. 1 to Agreement and Plan of Recapitalization and Merger, dated as of July 28, 1999, among SCG Holding Corporation, Semiconductor Components Industries, LLC, Motorola, Inc., TPG Semiconductor Holdings LLC, and TPG Semiconductor Acquisition Corp. (incorporated by reference from Exhibit 2.3 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
3.1(a)	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation as of August 1, 2002 (incorporated by reference from Exhibit 3.1(a) of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
3.1(b)	Certificate of Elimination of ON Semiconductor Corporation relating to the Certificate of Designations with respect to the Series A Cumulative Convertible Preferred Stock(1)
3.2	Amended and Restated Bylaws of ON Semiconductor Corporation (incorporated by reference from Exhibit 3.2 to the Corporation's Form 10-K filed with the Commission on March 10, 2004)
4.1	Specimen of share certificate of Common Stock, par value \$.01, ON Semiconductor Corporation (incorporated by reference from Exhibit 4.1 to the Corporation's Form 10-K filed with the Commission on March 10, 2004)
4.2	Investment Agreement, dated as of September 7, 2001, between TPG ON Holdings LLC and ON Semiconductor Corporation (incorporated by reference from Exhibit 4.2 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.3(a)	Registration Rights Agreement, dated as of September 7, 2001, between TPG ON Holdings LLC and ON Semiconductor Corporation (incorporated by reference from Exhibit 4.3 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.3(b)	Amendment No. 1 to Registration Rights Agreement between TPG ON Holdings LLC and ON Semiconductor Corporation, dated December 27, 2005(1)
4.4	Subordination Agreement, dated as of September 7, 2001, by and between TPG ON Holdings LLC and ON Semiconductor Corporation, for the benefit of Senior Creditors (incorporated by reference from Exhibit 4.4 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.5	Exchange Offer and Registration Rights Agreement, dated August 4, 1999, Semiconductor Components Industries, LLC, SCG Holding Corporation, the subsidiary guarantors of SCG Holding Corporation (incorporated by reference from Exhibit 4.5 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
4.6	Indenture regarding Zero Coupon Convertible Senior Subordinated Notes due 2024 dated as of April 6, 2004, between ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., Semiconductor Components Industries of Rhode Island, Inc., SCG International Development LLC and Semiconductor Components Industries International of Rhode Island, Inc., as guarantors and Wells Fargo Bank, N.A., a national banking association, as trustee (incorporated by reference from Exhibit 4.1 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)
4.7	Form of Note for Zero Coupon Convertible Senior Subordinated Notes due 2024 (incorporated by reference from Exhibit 4.2 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)
4.8	Registration Rights Agreement for Zero Coupon Convertible Senior Subordinated Notes due 2024 dated as of April 6, 2004, between ON Semiconductor Corporation and Morgan Stanley & Co. Incorporated, Credit Suisse First Boston LLC and J.P. Morgan Securities Inc. (incorporated by reference from Exhibit 4.3 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)
4.9	Indenture regarding the 1.875% Convertible Senior Subordinated Notes due 2025, dated as of December 21, 2005, between ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SMG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., Semiconductor Components Industries of Rhode Island, Inc., SCG International Development LLC and Semiconductor Components Industries International of Rhode Island, Inc. as guarantors and Deutsche Bank Trust Company Americas, a New York banking corporation, as trustee (incorporated by reference from Exhibit 4.1 to the Corporation's Form 8-K filed with the Commission on December 27, 2005)
4.10	Form of Note for the 1.875% Senior Subordinated Notes due 2025 between ON Semiconductor Corporation and Deutsche Bank Trust Company Americas (incorporated by reference from Exhibit 4.2 to the Corporation's Form 8-K filed with the Commission on December 27, 2005)
4.11	Registration Rights Agreement for the 1.875% Convertible Senior Subordinated Notes due 2025, dated as of December 21, 2005, between the ON Semiconductor Corporation and Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference from Exhibit 4.3 to the Corporation's Form 8-K filed with the Commission on December 27, 2005)
4.12	Conversion and Termination Agreement dated November 10, 2005, by and between ON Semiconductor Corporation and TPG ON Holdings LLC, to convert the Company's Series A Cumulative Preferred Stock owned by TPG into approximately 49 million shares of common stock (incorporated by reference from Exhibit 10.1 to the Corporation's Form 8-K filed with the Commission on November 15, 2005)
10.1(a)	Guarantee Agreement, dated as of August 4, 1999, among SCG Holding Corporation, the subsidiary guarantors of SCG Holding Corporation that are signatories thereto, and The Chase Manhattan Bank, as collateral agent (incorporated by reference from Exhibit 10.3 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.1(b)	Supplement No.1 dated as of April 3, 2000 to the Guarantee Agreement dated as of August 4, 1999, among SCG Holding Corporation, each of the subsidiaries listed on Schedule I thereto, and The Chase Manhattan Bank, as collateral agent(1)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.2	Stock Purchase Agreement dated March 8, 2000 among Semiconductor Components Industries, LLC, SCG Holding Corporation and The Cherry Corporation (incorporated by reference from Exhibit 10.3 to Registration Statement No. 333-30670 filed with the Commission on April 7, 2000)
10.3	Amended and Restated Intellectual Property Agreement, dated August 4, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.5 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000)††
10.4	Employee Matters Agreements, as amended, dated July 30, 1999, among Semiconductor Components Industries, LLC, SCG Holding Corporation and Motorola, Inc. (incorporated by reference from Exhibit 10.7 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000)
10.5(a)	SCG Holding Corporation 1999 Founders Stock Option Plan (incorporated by reference from Exhibit 10.14 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.5(b)	Form of Stock Option Grant Agreement to 1999 Founders Stock Option Plan (incorporated by reference from Exhibit 10.9 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)(2)
10.6	Lease for 52nd Street property, dated July 31, 1999, among Semiconductor Components Industries, LLC as Lessor, and Motorola Inc. as Lessee (incorporated by reference from Exhibit 10.16 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.7	Declaration of Reciprocal Covenants, Easement of Restrictions and Options to Purchase and Lease, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.17 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.8(a)	Employment Agreement, dated as of October 27, 1999, between Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.21 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999) (2)
10.8(b)	Amendment to Employment Agreement, dated as of October 1, 2001, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.20(b) to the Corporation's Form 10-K filed with the Commission on March 29, 2002)(2)
10.8(c)	Amendment to Employment Agreement, dated as of August 5, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.1 of Third Quarter 2003 Form 10-Q filed with the Commission on November 7, 2003)(2)
10.8(d)	Amendment to Employment Agreement with William George dated February 17, 2005 (incorporated by reference from Exhibit 10.1 to the Corporation's Form 8-K filed with the Commission on February 18, 2005)(2)
10.9	Non-qualified Stock Option Agreement (form of agreement for William George) (incorporated by reference from Exhibit 10.2 to the Corporation's Form 8-K filed with the Commission on February 18, 2005)(2)
10.10(a)	2000 Stock Incentive Plan as amended and restated May 19, 2004 (incorporated by reference from Exhibit 10.7 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.10(b)	2000 Stock Incentive Plan — non-qualified stock option agreement (incorporated by reference from Exhibit 10.35(d) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.10(c)	2000 Stock Incentive Plan — incentive stock option agreement (incorporated by reference from Exhibit 10.35(c) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.10(d)	2000 Stock Incentive Plan — ON Ownership program grant agreement (incorporated by reference from Exhibit 10.33(b) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.10(e)	Non-qualified Stock Option Agreement for Senior Vice Presidents and Above (form of agreement) (incorporated by reference from Exhibit 10.5 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)
10.10(f)	Performance Based Stock Option Agreement (Peter Green) dated as of February 10, 2005 (incorporated by reference from Exhibit 10.3 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)
10.10(g)	Performance Based Stock Option Agreement (Larry Sims) dated as of February 10, 2005 (incorporated by reference from Exhibit 10.4 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)
10.10(h)	Non-qualified Stock Option Agreement for Directors (form of standard agreement) (incorporated by reference from Exhibit 10.2 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)
10.10(i)	Non-qualified Stock Option Agreement for Directors (J. Daniel McCranie) dated as of February 10, 2005 (incorporated by reference from Exhibit 10.1 to the Corporation's Form 8-K filed with the Commission on February 16, 2005)(2)
10.11	2000 Employee Stock Purchase Plan as amended and restated May 19, 2004 (incorporated by reference from Exhibit 10.8 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)(2)
10.12	ON Semiconductor 2002 Executive Incentive Plan (incorporated by reference from Exhibit 10.1 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)(2)
10.13	Employee Incentive Plan January 2002 (incorporated by reference from Exhibit 10.2 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)(2)
10.14(a)	Loan Facility Agreement, between Leshan-Phoenix Semiconductor Company Limited and Industrial & Commercial Bank of China, Leshan City Branch, for loan in an amount up to \$20 million, dated November 17, 2000 (incorporated by reference from Exhibit 10.1 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.14(b)	Letter for Loan Extension Application for a loan in an amount up to \$20 million, dated November 5, 2003, from Leshan-Phoenix Semiconductor Co. Ltd. to ICBC, Leshan City Branch (incorporated by reference from Exhibit 10.32(b) to the Corporation's Form 10-K filed with the Commission on March 10, 2004)
10.14(c)	Loans Renewal Agreement between Leshan Phoenix Semiconductor Co. Ltd. and Industrial and Commercial Bank of China, Leshan City Branch for a loan in an amount up to \$20 million, dated March 5, 2004 Branch (incorporated by reference from Exhibit 10.32(c) to the Corporation's Form 10-K filed with the Commission on March 10, 2004)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.14(d)	Supplemental Loan Agreement between Leshan-Phoenix Semiconductor Company Limited and Industrial & Commercial Bank of China dated July 14, 2005, amending and supplementing a related Loan Facility Agreement dated November 17, 2000 (incorporated by reference from Exhibit 10.3 in the Corporation's Form 10-Q filed with the Commission on August 3, 2005)
10.15(a)	Loan Agreement between SCG Japan Ltd. and Development Bank of Japan, for loan in an amount up to \$26.1 million, dated October 27, 2000 (incorporated by reference from Exhibit 10.2 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.15(b)	Guaranty Agreement, executed by Semiconductor Components Industries, LLC on October 27, 2000, in connection with Loan Agreement between SCG Japan Ltd. and Development Bank of Japan, for loan in an amount up to \$26.1 million (incorporated by reference from Exhibit 10.3 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.16(a)	Employment Agreement effective as of March 28, 2002, between Semiconductor Components Industries, LLC and William Bradford (incorporated by reference from Exhibit 10.4 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.16(b)	Amendment No. 1 to Employment Agreement for William Bradford, executed on March 20, 2003, by and between Semiconductor Components Industries, LLC and William Bradford (incorporated by reference from Exhibit 10.39(b) to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.17	Joint Venture Contract for Leshan-Phoenix Semiconductor Company Limited, amended on November 5, 2004 between SCG (China) Holding Corporation and Leshan Radio Company Ltd. (incorporated by reference from Exhibit 10.27 of Fourth Quarter 2004 Form 10-K filed with the Commission on March 31, 2005)
10.18(a)	Employment Agreement, dated as of November 10, 2002, between ON Semiconductor Corporation and Keith Jackson (incorporated by reference from Exhibit 10.50(a) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.18(b)	Letter Agreement dated as of November 19, 2002, between ON Semiconductor Corporation and Keith Jackson (incorporated by reference from Exhibit 10.50(b) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.18(c)	Amendment No. 2 to Employment Agreement between ON Semiconductor Corporation and Keith Jackson dated as of March 21, 2003(1)(2)
10.18(d)	Amendment No. 3 to Employment Agreement between ON Semiconductor Corporation and Keith Jackson dated as of May 19, 2005 (incorporated by reference from Exhibit 10.1 in the Corporation's Form 10-Q filed with the Commission on August 3, 2005)(2)
10.18(e)	Amendment No. 4 to Employment Agreement between ON Semiconductor Corporation and Keith Jackson dated as of February 14, 2006 (incorporated by reference from Exhibit 10.1 to the Corporation's Form 8-K filed with the Commission on February 17, 2006)(2)
10.19(a)	Security Agreement dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and JPMorgan Chase Bank, as collateral agent for the Secured Parties (incorporated by reference from Exhibit 10.54 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.19(b)	Supplement No. 1, dated as of September 23, 2003, to the Security Agreement dated as of August 4, 1999 as amended and restated as of March 3, 2003, by and among Semiconductor Components Industries, LLC, the borrower, ON Semiconductor Corporation, and the subsidiary guarantors of ON Semiconductor that are signatories thereto, in favor of JPMorgan Chase Bank, as collateral agent for certain secured parties (incorporated by reference from Exhibit 10.5 of Third Quarter 2003 Form 10-Q filed with the Commission on November 7, 2003)
10.20(a)	Pledge Agreement, dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and JPMorgan Chase Bank, as collateral agent for the Secured Parties (incorporated by reference from Exhibit 10.55 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.20(b)	Amendment dated as of April 22, 2004 to (a) the Pledge Agreement dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC (the "Borrower"), ON Semiconductor Corporation ("Holdings"), and the subsidiaries of Holdings party thereto and JPMorgan Chase Bank ("JPMCB"), as collateral agent for the certain secured parties, and (b) the Security Agreement dated as of August 4, 1999, as amended and restated as of March 3, 2003, among the Borrower, Holdings, the subsidiaries of Holdings party thereto and JPMCB, as collateral agent (incorporated by reference from Exhibit 10.5 of Second Quarter 2004 Form 10-Q filed with the Commission on August 6, 2004)
10.21	Collateral Assignment dated as of August 4, 1999, as amended and restated as of March 3, 2003, between Semiconductor Components Industries, LLC and JPMorgan Chase Bank, as collateral agent for the Secured Parties, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 10.56 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.22	Employment Agreement, effective May 26, 2005, between Semiconductor Components Industries, LLC and Donald Colvin (incorporated by reference from Exhibit 10.1 to the Corporation's Form 8-K filed with the Commission on May 27, 2005)(2)
10.23	Letter Agreement relating to the employment of Peter Zdebel, dated as of March 31, 2003, by and between Semiconductor Components Industries, LLC and Peter Zdebel (incorporated by reference from Exhibit 10.58 to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.24	Amendment and Restatement Agreement, dated as of February 6, 2006 among ON Semiconductor Corporation ("Holdings"), Semiconductor Components Industries, LLC ("Borrower"), the lenders party hereto, and JPMorgan Chase Bank, N.A. as administrative agent, under the Credit Agreement dated as of August 4, 1999, as amended and restated as of December 23, 2004 and as amended as of November 4, 2005, among Holdings, the Borrower, the lenders party thereto, and the administrative agent(1)
10.25	Amended and Restated Credit Agreement, dated as of August 4, 1999, as amended and restated as of February 6, 2006, among ON Semiconductor Corporation, Semiconductor Component Industries, LLC, as borrower, the lenders party hereto, and JPMorgan Chase Bank, N.A. as administrative agent (Exhibit A to the Amendment and Restatement Agreement filed as Exhibit 10.24 hereto)(1)
10.26	Reaffirmation Agreement, dated as of February 6, 2006 among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, the subsidiary guarantors of ON Semiconductor that are signatories thereto, and JPMorgan Chase Bank, N.A. as administrative agent, issuing bank and collateral agent for the benefit of the lenders(1)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.27(a)	Loan Agreement executed on December 12, 2003, between China Construction Bank Sichuan Branch and Leshan-Phoenix Semiconductor Company LTD, for a loan in an amount up to \$48 million Branch (incorporated by reference from Exhibit 10.56(a) to the Corporation's Form 10-K filed with the Commission on March 10, 2004 and Form 10-K/A filed with the Commission on March 22, 2004)
10.27(b)	Amendment No. 1 to Loan Agreement between Leshan-Phoenix Semiconductor Company Limited and China Construction Bank dated as of July 27, 2005 (incorporated by reference from Exhibit 10.2 in the Corporation's Form 10-Q filed with the Commission on August 3, 2005)
10.27(c)	Mortgage Agreement executed on December 12, 2003, between China Construction Bank, Sichuan Branch and Leshan-Phoenix Semiconductor Company Ltd. relating to the loan in an amount up to \$48 million Branch (incorporated by reference from Exhibit 10.32(c) to the Corporation's Form 10-K filed with the Commission on March 10, 2004 and Form 10-K/A filed with the Commission on March 22, 2004)
10.27(d)	Confirmation for Extension of Tranche B Loan, in an amount up to \$24 million, dated as of January 3, 2004, from China Construction Bank, Sichuan Branch to Leshan-Phoenix Semiconductor Company Ltd. Branch (incorporated by reference from Exhibit 10.56(b) to the Corporation's Form 10-K filed with the Commission on March 10, 2004 and Form 10-K/A filed with the Commission on March 22, 2004)
10.28	Employment Agreement, effective May 26, 2005, between Semiconductor Components Industries, LLC and George H. Cave (incorporated by reference from Exhibit 10.2 to the Corporation's Form 8-K filed with the Commission on May 27, 2005)(2)
14	ON Semiconductor Corporation Code of Business Conduct effective as of September 19, 2005 (incorporated by reference from Exhibit 14 to the Corporation's Form 8-K filed with the Commission on September 20, 2005)
21.1	List of Significant Subsidiaries(1)
23.1	Consent of Independent Registered Public Accounting Firm — PricewaterhouseCoopers LLP(1)
24.1	Powers of Attorney(1)
31.1	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
31.2	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
32	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)
99.1	Stockholders Agreement dated as of August 4, 1999 among SCG Holding Corporation, TPG Semiconductor Holdings, LLC and Motorola, Inc. (incorporated by reference from Exhibit 99.5 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)

(1) Filed herewith.

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

† Schedules or other attachments to these exhibits not filed herewith shall be furnished to the Commission upon request.

†† Portions of these exhibits have been omitted pursuant to a request for confidential treatment

**CERTIFICATE OF ELIMINATION
OF
ON SEMICONDUCTOR CORPORATION**

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

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

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

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

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

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

ON SEMICONDUCTOR CORPORATION

By: /s/ JUDITH A. BOYLE

Name: Judith A. Boyle

Title: Assistant Secretary

AMENDMENT NO. 1 TO REGISTRATION RIGHTS AGREEMENT

This is Amendment No. 1, dated as of December 27, 2005 (this "**Amendment No. 1**") to the Registration Rights Agreement, dated as of September 7, 2001 (the "**Registration Rights Agreement**"), by and between ON Semiconductor Corporation, a Delaware corporation (the "**Company**"), and TPG ON Holdings LLC, a Delaware limited liability company ("**TPG**" or the "**Investor**").

RECITALS

WHEREAS, the Company and the Investor are parties to a Conversion and Termination Agreement, dated as of November 10, 2005 (the "**Conversion and Termination Agreement**"), pursuant to which the Investor converted 10,000 shares of the Company's Series A Cumulative Convertible Preferred Stock (the "**Preferred Stock**") into 49,364,080 shares of Common Stock (the "**Conversion Shares**") on and as of November 10, 2005;

WHEREAS, as an inducement to the Investor agreeing to the conversion of the Preferred Stock, the Company issued to the Investor an additional 3,949,126 shares of Common Stock on November 18, 2005 (the "**Inducement Shares**"); and

WHEREAS, pursuant to the Conversion and Termination Agreement, the Company and the Investor agreed to amend the Registration Rights Agreement to provide for the registration of the Inducement Shares together with the Conversion Shares.

NOW, THEREFORE, in consideration of the foregoing, the mutual promises contained herein, and other good and valuable consideration, the sufficiency of which is hereby acknowledged, intending to be legally bound hereby, the parties agree as follows:

Section 1.1. Capitalized terms used but not otherwise defined herein have the meanings assigned thereto in the Registration Rights Agreement.

Section 2.1. Section 1.2 of the Registration Rights Agreement shall be amended to include the following definitions:

"Conversion and Termination Agreement" means the Conversion and Termination Agreement by and between the Company and the Investor dated November 10, 2005.

"Inducement Shares" means 3,949,126 shares of Common Stock issued by the Company to Investor on November 18, 2005 pursuant to the Conversion and Termination Agreement.

"Additional Effectiveness Date" means the 180th day following the date of the Conversion and Termination Agreement.

"Additional Registrable Securities" means the Inducement Shares and any securities issued or issuable in respect of any Additional Registrable Securities upon any stock dividend, stock split, or other distribution, merger, consolidation, exchange, recapitalization or reclassification or similar transaction provided, however, that any such Additional Registrable Securities shall cease to be Additional Registrable Securities to the extent (i) a Registration Statement with respect to the sale of such Additional Registrable Securities has been declared effective under the Securities Act and such

Additional Registrable Securities have been disposed of in accordance with the plan of distribution set forth in such Registration Statement, (ii) such Additional Registrable Securities have been distributed pursuant to Rule 144 (or any similar provision then in force) under the Securities Act or (iii) such Additional Registrable Securities shall have been otherwise transferred and new certificates for them not bearing a legend restricting transfer under the Securities Act shall have been delivered by the Company and such securities may be publicly resold without Registration under the Securities Act.

“Additional Filing Date” means the 120th day following the date hereof.

“Additional Registration Statement” means a Shelf Registration Statement covering the Additional Registrable Securities and any other Registrable Securities not already covered by an existing Registration Statement.

Section 2.2. Section 2.1 shall be amended by adding the following at the end of subsection (a):

“On or before the Additional Filing Date, the Company shall file with the SEC an Additional Shelf Registration Statement and, thereafter, shall use its reasonable best efforts to cause such Additional Shelf Registration Statement to be declared effective under the Securities Act by the Additional Effectiveness Date.”

Section 2.3. Subsection (b) of Section 2.1 shall be amended and restated in its entirety as follows:

(b) **Continued Effectiveness.** The Company shall use its reasonable best efforts, subject to Section 2.1(c), to keep such Shelf Registration Statement and Additional Registration Statement continuously effective under the Securities Act in order to permit the Prospectus forming a part thereof to be usable by holders until the earlier of the date upon which (i) a Registration Statement(s) with respect to the sale of such Registrable Securities and Additional Registrable Securities has been declared effective under the Securities Act and such Registrable Securities and Additional Registrable Securities have been disposed of in accordance with the plan of distribution set forth in such Registration Statements, (ii) such Registrable Securities and Additional Registrable Securities have been distributed pursuant to Rule 144 (or any similar provision then in force) under the Securities Act or (iii) such Registrable Securities and Additional Registrable Securities shall have been otherwise transferred and new certificates for them not bearing a legend restricting transfer under the Securities Act shall have been delivered by the Company and such securities may be publicly resold without Registration under the Securities Act (such period of effectiveness, the “Shelf Period”).

Section 2.4. Section 2.1 shall be amended by adding the following at the end of subsection (c):

“The Company’s rights granted under this subsection (c), with respect to a Shelf Suspension, shall be fully applicable to any Additional Registration Statement.”

Section 2.5. Section 2.1 shall be amended by adding the following new subsection (e):

“For purposes of determining the amount of Registrable Securities making a request or an election under this Agreement, as amended, the Additional Registrable Securities shall be counted as Registrable Securities and shall be able to participate in any Underwritten Offering, Demand Registration or Piggyback Registration to the fullest extent permitted of the Registrable Securities.”

Section 2.6 For purposes of Sections 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10, 3.5 and 3.9 of the Registration Rights Agreement, as amended, the term Registrable Securities shall hereby be deemed to include the Additional Registrable Securities.

Section 3.1. The last sentence of Section 3.11 shall be deleted.

Section 3.2. Except as specifically amended pursuant to the terms of this Amendment No. 1, the terms and provisions of the Registration Rights Agreement shall remain in full force and effect.

Section 3.3. This Amendment No. 1 may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

[signatures on following page]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to be executed by their duly authorized representatives as of the date first written above.

ON SEMICONDUCTOR CORPORATION

By: /s/ KEITH D. JACKSON

Name: Keith D. Jackson

Title: President and Chief Executive Officer

TPG ON HOLDINGS LLC

By: /s/ DAVID A. SPURIA

Name: David A. Spuria

Title: Vice President

SUPPLEMENT NO. 1 dated as of April 3, 2000, to the Guarantee Agreement dated as of August 4, 1999, among SCG HOLDING CORPORATION, a Delaware corporation (“Holdings”), each of the subsidiaries listed on Schedule I thereto (each such subsidiary individually, a “Subsidiary” and, collectively, the “Subsidiaries”; and each such Subsidiary and Holdings, individually, a “Guarantor” and, collectively, the “Guarantors”), and THE CHASE MANHATTAN BANK, a New York banking corporation, as collateral agent (the “Collateral Agent”) for the Secured Parties (as defined in the Security Agreement).

A. Reference is made to the Credit Agreement dated as of August 4, 1999 (as amended, supplemented or otherwise modified from time to time, the “Credit Agreement”), among Semiconductor Components Industries, LLC, a Delaware limited liability company (the “Borrower”), Holdings, the lenders from time to time party thereto (the “Lenders”), The Chase Manhattan Bank, as administrative agent for the Lenders (in such capacity, the “Administrative Agent”), and Credit Lyonnais New York Branch, DLJ Capital Funding, Inc. and Lehman Commercial Paper Inc., as co-documentation agents.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Guarantee Agreement and the Credit Agreement.

C. The Guarantors have entered into the Guarantee Agreement in order to induce the Lenders to make Loans and the Issuing Bank to issue Letters of Credit. Pursuant to Section 5.12 of the Credit Agreement, each Subsidiary Loan Party that was not in existence or not a Subsidiary Loan Party on the date of the Credit Agreement is required to enter into the Guarantee Agreement as a Guarantor upon becoming a Subsidiary Loan Party. Section 20 of the Guarantee Agreement provides that additional Subsidiaries may become Guarantors under the Guarantee Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiaries (each a “New Guarantor” and collectively the “New Guarantors”) are executing this Supplement in accordance with the requirements of the Credit Agreement to become Guarantors under the Guarantee Agreement in order to induce the Lenders to make additional Loans and the Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made and Letters of Credit previously issued.

Accordingly, the Collateral Agent and the New Guarantors agree as follows:

SECTION 1. In accordance with Section 20 of the Guarantee Agreement, each New Guarantor by its signature below becomes a Guarantor under the Guarantee Agreement with the same force and effect as if originally named therein as a Guarantor and each New Guarantor hereby (a) agrees to all the terms and provisions of the Guarantee Agreement applicable to it as a Guarantor thereunder and (b) represents and warrants that the representations and warranties made by it as a Guarantor thereunder are true and correct on and as of the date hereof except to the extent a representation and warranty expressly relates solely to a specific date in which case such representation and warranty shall be true and correct on such date. Each reference to a “Guarantor” in the Guarantee Agreement shall be deemed to include the New Guarantors. The Guarantee Agreement is hereby incorporated herein by reference.

SECTION 2. Each New Guarantor represents and warrants to the Collateral Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 3. This Supplement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract.

This Supplement shall become effective when the Collateral Agent shall have received counterparts of this Supplement that, when taken together, bear the signatures of each of the New Guarantors and the Collateral Agent. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Supplement.

SECTION 4. Except as expressly supplemented hereby, the Guarantee Agreement shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. In case any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Guarantee Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision hereof in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All communications and notices hereunder shall be in writing and given as provided in Section 14 of the Guarantee Agreement. All communications and notices hereunder to either New Guarantor shall be given to it at the address set forth under its signature below, with a copy to the Borrower.

SECTION 8. The New Guarantors agree, jointly and severally, to reimburse the Collateral Agent for its out-of-pocket expenses in connection with this Supplement, including the reasonable fees, disbursements and other charges of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Guarantors and the Collateral Agent have duly executed this Supplement to the Guarantee Agreement as of the day and year first above written.

SEMICONDUCTOR COMPONENTS INDUSTRIES OF
RHODE ISLAND, INC. (formerly known as Cherry
Semiconductor Corporation),

By /s/ Dario Sacomani

Name: Dario Sacomani

Title: Senior Vice President, Chief Financial Officer and
Treasurer

Address:

SEMICONDUCTOR COMPONENTS INDUSTRIES
INTERNATIONAL OF RHODE ISLAND, INC. (formerly
known as Cherry Semiconductor International, Inc.),

By /s/ Dario Sacomani

Name: Dario Sacomani

Title: Senior Vice President, Chief Financial Officer and
Treasurer

Address:

REDBIRD ACQUISITION CORP.,

By /s/ Dario Sacomani

Name: Dario Sacomani

Title: Treasurer

Address:

THE CHASE MANHATTAN BANK, as Collateral Agent,

By /s/ Edmond DeForest

Name: Edmond DeForest

Title: Vice President

**AMENDMENT NO. 2 TO
EMPLOYMENT AGREEMENT
FOR KEITH JACKSON**

WHEREAS, ON Semiconductor Corporation (“Company”) and Keith Jackson (“Executive”) entered into an Employment Agreement dated as of November 10, 2002 (“Agreement”);

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

WHEREAS, on November 19, 2002, the Company and Executive entered into an amendment to the Agreement clarifying the Effective Date of the Agreement; and

WHEREAS, the Company and the Executive now wish to further amend the Agreement to clarify that the Option to purchase 1,200,000 shares of common stock of the Company pursuant to Section 2(d) of the Agreement consist of two (2) option grants: (1) a grant of 1,000,000 under the ON Semiconductor Corporation 2000 Stock Incentive Plan; and (2) a grant of 200,000 under the ON Semiconductor Corporation 1999 Founders Stock Option Plan (“Amendment”).

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

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

(d) As soon as practicable after the Effective Date (as defined in Section 3 below), the Company shall grant the Executive two (2) options: (1) one option to purchase 1,000,000 shares of common stock of the Company under the ON Semiconductor Corporation 2000 Stock Incentive Plan (“Option Plan”); and (2) one option to purchase 200,000 shares of common stock of the Company under the ON Semiconductor Corporation 1999 Founders Stock Option Plan (“Founders Plan”). Collectively and singly, these option grants shall be referred to as the “Option” in the Agreement. The Option shall be granted at an exercise price equal to the Fair Market Value (as defined in the Option Plan and Founders Plan, as applicable), on the date of grant (“Grant Date”) of such Option. The Option shall be subject to and governed by the Option Plan and Founders Plan, as applicable, and shall each be evidenced by a stock option grant agreement as provided under the Option Plan and Founders Plan, as applicable. Twenty-five (25) percent of the Option shall vest on each anniversary of the Grant Date beginning on the first anniversary of the Grant Date until 100% of the Option is fully vested and exercisable; provided that the Executive is still employed by the Company on each such date that a portion of the Option is to become exercisable. Notwithstanding the foregoing, in the event the Executive’s employment with the Company is terminated by the Company without Cause (as defined in Section 3 below) or by the Executive for

Good Reason (as defined in Section 3 below) within the two-year period following a Change of Control (as defined in the Option Plan) the Option shall become immediately exercisable. The Option, or portion thereof, that has not become exercisable shall automatically expire on the Date of Termination (as defined in Section 4 below). The Option, or portion thereof, that has become exercisable as of the Date of Termination shall expire on the earlier of (i) ninety (90) days after the date the Executive's Employment is terminated for any reason other than Cause, death or Disability; (ii) two years after the date the Executive's employment is terminated by reason of death or Disability or by the Company without Cause (as defined in Section 3 below); (iii) the commencement of business on the date the Executive's employment is terminated for Cause; or (iv) the tenth anniversary of the Grant Date.

2. 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 21 date of March 2003.

EXECUTIVE:

Keith Jackson, in his individual capacity

By: /s/ KEITH JACKSON

Name: Keith Jackson

Title: Chief Executive Officer and President

CORPORATION:

ON Semiconductor Corporation

By: /s/ GEORGE H. CAVE

Name: George H. Cave

Title: Vice President and General Counsel

AMENDMENT AND RESTATEMENT AGREEMENT dated as of February 6, 2006 (this "Agreement"), among ON SEMICONDUCTOR CORPORATION ("Holdings"), SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC (the "Borrower"), the LENDERS party hereto and JPMORGAN CHASE BANK, N.A., as administrative agent (the "Administrative Agent"), under the Amended and Restated Credit Agreement dated as of August 4, 1999, as amended and restated as of December 23, 2004 and as amended as of November 4, 2005 (as in effect on the date hereof, the "Existing Credit Agreement"), among Holdings, the Borrower, the lenders party thereto and the Administrative Agent.

WHEREAS Holdings and the Borrower have requested, and the Restatement Lenders and the Administrative Agent have agreed, upon the terms and subject to the conditions set forth herein, that (a) the Renewing Term Lenders referred to below and the Additional Term Lenders referred to below extend credit in the form of Term Loans on the Restatement Effective Date in an aggregate principal amount equal to \$639,061,990.58 and (b) the Existing Credit Agreement be amended and restated as provided herein.

NOW, THEREFORE, Holdings, the Borrower, the Restatement Lenders and the Administrative Agent hereby agree as follows:

SECTION 1. Defined Terms. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Restated Credit Agreement referred to below. As used in this Agreement, "Restatement Lenders" means, at any time, (a) the Renewing Term Lenders referred to below, (b) the Additional Term Lenders referred to below and (c) for purposes of the conditions to the transactions described in Section 4 of this Agreement, the Required Lenders under (and as defined in) the Existing Credit Agreement.

SECTION 2. Restatement Effective Date. (a) The transactions provided for in Sections 3 and 4 hereof shall be consummated at a closing to be held on the Restatement Effective Date at the offices of Cravath, Swaine & Moore LLP, or at such other time and place as the parties hereto shall agree upon.

(b) The "Restatement Effective Date" shall be specified by the Borrower, and shall be a date, not later than February 6, 2006, as of which all the conditions set forth or referred to in Section 5 hereof shall have been satisfied. The Borrower, by giving not less than one Business Day's written notice, (i) shall propose a date as the Restatement Effective Date to the Administrative Agent and (ii) may change a previously proposed date for the Restatement Effective Date, provided that the Borrower agrees that the provisions of Section 2.16 of the Restated Credit Agreement shall apply in the event of any such change. The Administrative Agent shall notify the Restatement Lenders of the proposed date. This Agreement shall terminate at 5:00 p.m., New York City time, on February 6, 2006, if the Restatement Effective Date shall not have occurred at or prior to such time.

SECTION 3. Term Loans. (a) Subject to the terms and conditions set forth herein, each Person identified on Schedule I hereto as a Term Lender (a "Term Lender") agrees to make Term Loans to the Borrower on the Restatement Effective Date in an aggregate principal amount not exceeding its Term Commitment. A Term Lender's "Term Commitment" means its commitment to make Term Loans hereunder, expressed as an amount representing the maximum aggregate principal amount of Term Loans to be made by such Term Lender, as set forth in Schedule I hereto. The Term Commitments are several and no Term Lender will be responsible for any other Term Lender's failure to make Term Loans. The Term Loans shall be made in the manner contemplated by paragraphs (c) and (d) of this Section.

(b) Each Person that holds an existing Tranche G Term Loan under, and as defined in, the Existing Credit Agreement (a "Tranche G Term Loan"), and each such Person holding a Tranche G Term Loan being an "Existing Term Lender") that executes this Agreement specifically in the capacity of a "Renewing Term Lender" on a signature page hereto (a "Renewing Term Lender") will be deemed on the Restatement Effective Date to have agreed to the terms of this Agreement and to have a Term Commitment in its capacity as a Renewing Term Lender equal to the lesser of its Term Commitment set forth on Schedule I hereto and the outstanding principal amount of its Tranche G Term Loans immediately prior to the Restatement Effective Date (its "Existing Term Loans"). Each Existing Term Lender that executes this Agreement specifically in the capacity of a Consenting Lender on a signature page hereto which does not have a Term Commitment set forth on Schedule I hereto shall be deemed on the Restatement Effective Date to have consented to this Agreement but shall not have any commitment to make Term Loans. Each Term Lender (other than a Renewing Term Lender in its capacity as such) is referred to herein as an "Additional Term Lender", it being understood that, if a Term Lender is both a Renewing Term Lender and an Additional Term Lender, then (i) its Term Commitment in its capacity as a Renewing Term Lender shall equal the outstanding principal amount of its Existing Term Loans and (ii) its Term Commitment in its capacity as an Additional Term Lender shall equal the excess of its total Term Commitment over the outstanding principal amount of its Existing Term Loans.

(c) The Term Loans to be made by each Renewing Term Lender on the Restatement Effective Date shall be made by converting Indebtedness represented by the outstanding principal amount of its Existing Term Loans (not exceeding its Term Commitment) to, and exchanging such Indebtedness for, Term Loans in an equal principal amount (on a net basis without requiring any transfer of funds), and such Indebtedness shall remain outstanding under the Restated Credit Agreement as Term Loans. The Term Loans to be made by each Additional Term Lender on the Restatement Effective Date shall be made by transferring funds to the Administrative Agent, in the manner contemplated by Section 2.06 of the Restated Credit Agreement, in an amount equal to such Additional Term Lender's Term Commitment (in its capacity as an Additional Term Lender).

(d) Term Loans shall be made on the Restatement Effective Date as ABR Borrowings or, if the Borrower shall have delivered an irrevocable written request to such effect to the Administrative Agent at least two Business Days prior to the Restatement Effective Date, Eurodollar Borrowings (with respect to any such request for Eurodollar Borrowings, it is understood and agreed that in the event the Term Loans are not borrowed on the Restatement Effective Date, the Borrower shall compensate each Term Lender for any loss, cost or expense incurred by such Term Lender in respect of such event to the same extent as if such Term Lender were entitled to compensation therefor pursuant to Section 2.16 of the Existing Credit Agreement). The provisions of Sections 2.02 and 2.06 of the Restated Credit Agreement shall apply for all purposes of making the Term Loans, except as otherwise provided herein.

(e) The Borrower hereby irrevocably authorizes and directs the Administrative Agent on the Restatement Effective Date to apply the proceeds of the Term Loans to prepay, pursuant to Section 2.11(a) of the Existing Credit Agreement, the Existing Term Loans outstanding as of such date (other than those converted to and exchanged for Term Loans as provided above). On the Restatement Effective Date, the Borrower shall pay, without applying the proceeds of the Term Loans, the accrued and unpaid interest on the Existing Term Loans (including those converted to and exchanged for Term Loans as provided above) and any other amounts (including amounts under Section 2.16 of the Existing Credit Agreement) owing in respect of the Existing Term Loans. The conversion and exchange of all or any portion of an Existing Term Loan for a Term Loan shall be treated as a repayment thereof for purposes of Section 2.16 of the Existing Credit Agreement.

(f) Unless the Administrative Agent shall have received notice from an Additional Term Lender prior to the Restatement Effective Date that such Additional Term Lender will not make available to the Administrative Agent such Additional Term Lender's share of such Term Loan Borrowing, the Administrative Agent may assume that such Additional Term Lender has made such share available on such date in accordance with this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if any Additional Term Lender has in fact defaulted in making its share of such Term Loan Borrowing, then the applicable Additional Term Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such defaulted amount (to the extent so advanced by the Administrative Agent on behalf of such defaulting Additional Term Lender), together with interest on such amount at the interest rate applicable to ABR Loans from the Restatement Effective Date to the date of payment. Upon any such payment by the Borrower, the Borrower shall have the right, at the defaulting Additional Term Lender's expense, upon notice to the defaulting Additional Term Lender and to the Administrative Agent, to require such defaulting Additional Term Lender to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.04 of the Restated Credit Agreement) all its interests, rights and obligations as an Additional Term Lender under the Restated Credit Agreement to another financial institution which shall assume such interests, rights and obligations, provided that (i) no such assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the assignee shall pay, in immediately available funds on the date of such

assignment, (A) to the Administrative Agent, (1) the outstanding principal of, and interest accrued to the date of payment on, the defaulted amount of the Term Loans advanced by the Administrative Agent on the defaulting Additional Term Lender's behalf under the Restated Credit Agreement that was not paid by the Borrower to the Administrative Agent pursuant to the preceding sentence and (2) all other amounts accrued for the Administrative Agent's account or owed to it under the Restated Credit Agreement in respect of such defaulted amount of Term Loans and (B) to the Borrower, the outstanding principal of, and interest accrued to the date of payment on, the defaulted amount of the Term Loans that the Borrower paid to the Administrative Agent pursuant to the preceding sentence.

SECTION 4. Amendment and Restatement of the Existing Credit Agreement; Loans and Letters of Credit; Amendment of Security Documents.

(a) Effective on the Restatement Effective Date, immediately upon the consummation of the transactions set forth in Section 3 above, the Existing Credit Agreement (excluding the annexes, schedules and exhibits thereto that are not attached as part of Exhibit A hereto) is hereby amended and restated to read in its entirety as set forth in Exhibit A hereto (the "Restated Credit Agreement"). From and after the effectiveness of such amendment and restatement, the terms "Agreement", "this Agreement", "herein", "hereinafter", "hereto", "hereof" and words of similar import, as used in the Restated Credit Agreement, shall, unless the context otherwise requires, refer to the Restated Credit Agreement, and the term "Credit Agreement", as used in the other Loan Documents, shall mean the Restated Credit Agreement.

(b) All Revolving Commitments in effect under the Existing Credit Agreement on the Restatement Effective Date shall continue in effect under the Restated Credit Agreement, and all Revolving Loans, Swingline Loans and Letters of Credit outstanding under the Existing Credit Agreement on the Restatement Effective Date shall continue to be outstanding under the Restated Credit Agreement, and on and after the Restatement Effective Date, the terms of the Restated Credit Agreement will govern the rights and obligations of Holdings, the Borrower, the Lenders, the applicable Issuing Bank and the Administrative Agent with respect thereto.

(c) Effective on the Restatement Effective Date, (i) each Lender under, and as defined in, the Existing Credit Agreement that is not a Term Lender or Revolving Lender as defined herein shall be released from all its obligations under the Existing Credit Agreement and shall not have any obligations under the Restated Credit Agreement, and (ii) each Term Lender and Revolving Lender as defined herein shall be deemed to be a party to the Restated Credit Agreement, together with Holdings, the Borrower and the Administrative Agent, and the Restated Credit Agreement shall govern the rights and obligations of the parties hereto with respect to the Term Loans and Revolving Commitments; provided that the foregoing shall not be construed to discharge or release the Borrower from any obligations owed to any Lenders under the Existing Credit Agreement that cease to be Lenders under the Restated Credit Agreement, including obligations under Sections 2.15, 2.16, 2.17 or 9.03 thereof.

(d) The parties thereto that are Lenders under, and as defined in, the Existing Credit Agreement hereby waive any requirement under the Existing Credit Agreement of notice of prepayment of Existing Term Loans under the Existing Credit Agreement provided for herein.

(e) The Restatement Lenders hereby consent to the amendment of the Security Documents to implement the provisions of the Restated Credit Agreement.

SECTION 5. Conditions. The consummation of the transactions set forth in Sections 3 and 4 of this Agreement shall be subject to the satisfaction of the following conditions precedent:

(a) The Administrative Agent (or its counsel) shall have received from each of Holdings, the Borrower and the Restatement Lenders either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include facsimile transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Restatement Effective Date) of each of (i) Cleary Gottlieb Steen & Hamilton LLP, counsel for the Borrower, substantially in the form of Exhibit B-1, (ii) Gust Rosenfeld P.L.C., Arizona local counsel for the Borrower, substantially in the form of Exhibit B-2, and (iii) Hinckley, Allen & Snyder LLP, Rhode Island local counsel for the Borrower, substantially in the form of Exhibit B-3, and, in the case of each such opinion required by this paragraph, covering such other matters relating to the Loan Parties, the Loan Documents or the Restatement Transactions as the Restatement Lenders shall reasonably request. The Borrower hereby requests such counsel to deliver such opinions.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of each Loan Party, the authorization of the Restatement Transactions and any other customary legal matters relating to the Loan Parties, the Loan Documents or the Restatement Transactions, all in form and substance reasonably satisfactory to the Administrative Agent and its counsel.

(d) Each of the conditions set forth in Section 4.02 of the Restated Credit Agreement shall be satisfied, and the Administrative Agent shall have received a certificate, dated the Restatement Effective Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming satisfaction of the conditions set forth in paragraphs (a) and (b) of Section 4.02 of the Restated Credit Agreement.

(e) The Administrative Agent shall have received all fees and other amounts due and payable in connection with this Agreement and the Existing Credit Agreement on or prior to the Restatement Effective Date, including, to the extent invoiced in writing at least one Business Day prior to the Restatement Effective Date, reimbursement or payment of all reasonable documented out-of-pocket expenses (including fees, charges and disbursements of counsel) required to be reimbursed or paid by any Loan Party hereunder or under any other Loan Document.

(f) The Collateral and Guarantee Requirement shall be satisfied after giving effect to the Restatement Transactions, and in connection therewith the Administrative Agent shall have received (i) a completed Perfection Certificate with respect to the Loan Parties (including the Subsidiaries party to the Reaffirmation Agreement) dated the Restatement Effective Date and signed by an executive officer or Financial Officer of the Borrower, together with all attachments contemplated thereby, (ii) the results of a search of the Uniform Commercial Code (or equivalent) filings made with respect to the Loan Parties (including the Subsidiaries party to the Reaffirmation Agreement) in the jurisdictions contemplated by the Perfection Certificate and the copies of the financing statements (or similar documents) disclosed by such research and evidence reasonably satisfactory to the Administrative Agent that the Liens indicated by such financing statements (or similar documents) are expressly permitted by the Restated Credit Agreement, (iii) all documents and instruments, including Uniform Commercial Code financing statements, required by law or reasonably requested by the Collateral Agent to be filed, registered or recorded to create the Liens intended to be created by the Security Agreement and the Pledge Agreement (including any supplements thereto), after giving effect to the Restatement Transactions, and perfect such Liens to the extent required by, and with the priority required by, the Security Agreement and the Pledge Agreement and (iv) (A) amendments to each Mortgage with respect to each Mortgaged Property providing that the Term Loans (in addition to the other Obligations) shall be secured by a Lien on each such Mortgaged Property, (B) endorsements to existing policy or policies of title insurance issued by a nationally recognized title insurance company, insuring the Lien of each such Mortgage as amended so remains a valid first Lien on the Mortgaged Property described therein, free of any other Liens except as expressly permitted by Section 6.02 of the Restated Credit Agreement, together with such endorsements, coinsurance and reinsurance as the Collateral Agent or the Restatement Lenders may reasonably request and (C) such surveys, abstracts, appraisals, legal opinions and other documents as the Collateral Agent or the Restatement Lenders may reasonably request with respect to any such Mortgage or Mortgaged Property.

(g) A Reaffirmation Agreement substantially in the form of Exhibit C hereto shall have been executed and delivered by each party thereto.

(h) The Revolving Lenders and Term Lenders shall have received, to the extent requested, all documentation and other information required by bank regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including the USA PATRIOT Act.

The Administrative Agent shall notify the Borrower and the Restatement Lenders of the Restatement Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the consummation of the transactions set forth in Sections 3 and 4 of this Agreement and the obligations of the Term Lenders to make Term Loans and the Revolving Commitments of the Revolving Lenders provided for herein shall not become effective unless each of the foregoing conditions is satisfied at or prior to 5:00 p.m., New York City time, on February 6, 2006 (and, in the event such conditions are not so satisfied or waived, this Agreement shall terminate at such time).

SECTION 6. Effectiveness; Counterparts; Amendments. This Agreement shall become effective when copies hereof which, when taken together, bear the signatures of Holdings, the Borrower, the Administrative Agent and the Restatement Lenders shall have been received by the Administrative Agent. This Agreement may not be amended nor may any provision hereof be waived except pursuant to a writing signed by Holdings, the Borrower, the Administrative Agent and the Restatement Lenders. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or other electronic transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 7. No Novation. This Agreement shall not extinguish the Loans outstanding under the Existing Credit Agreement, except to the extent actually prepaid as provided herein. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 of the Existing Credit Agreement will continue to be effective as to all matters arising out of or in any way related to facts or events existing or occurring prior to the Restatement Effective Date. This Agreement shall be a Loan Document for all purposes.

SECTION 8. Notices. All notices hereunder shall be given in accordance with the provisions of Section 9.01 of the Restated Credit Agreement or, in the case of a notice to any Existing Term Lender, in accordance with Section 9.01 of the Existing Credit Agreement.

SECTION 9. Applicable Law; Waiver of Jury Trial. **(A) THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.**

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

SECTION 10. Headings. The Section headings used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

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

ON SEMICONDUCTOR CORPORATION,

By /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and
Chief Financial Officer

SEMICONDUCTOR COMPONENTS
INDUSTRIES, LLC,

By /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and
Chief Financial Officer

JPMORGAN CHASE BANK, N.A., as
Administrative Agent,

By /s/ DAVID MALLETT

Name: David Mallett
Title: Vice President

SIGNATURE PAGE TO THE AMENDMENT AND
RESTATEMENT AGREEMENT AMONG ON
SEMICONDUCTOR CORPORATION,
SEMICONDUCTOR COMPONENTS
INDUSTRIES, LLC, THE LENDERS PARTY
THERE TO AND JPMORGAN CHASE BANK,
N.A., AS ADMINISTRATIVE AGENT

Name of Institution:

Executing solely as a Consenting Lender:

By _____

Name:

Title:

Executing as a Renewing Term Lender:

By _____

Name:

Title:

Executing as an Additional Term Lender:

By _____

Name:

Title:

[Not included in this filing are numerous signature pages for the numerous lenders under the Credit Agreement]

SCHEDULES AND EXHIBITS

Schedules

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Exhibits

Exhibit A Amended and Restated Credit Agreement
Exhibit B-1 Form of Opinion of Cleary Gottlieb Steen & Hamilton LLP
Exhibit B-2 Form of Opinion of Gust Rosenfeld P.L.C.
Exhibit B-3 Form of Opinion of Hinckley, Allen & Snyder LLP
Exhibit C Form of Reaffirmation Agreement

AMENDED AND RESTATED CREDIT AGREEMENT

dated as of

August 4, 1999,

as Amended and Restated

as of February 6, 2006

among

ON SEMICONDUCTOR CORPORATION,
SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC,

The Lenders Party Hereto

and

JPMORGAN CHASE BANK, N.A.
as Administrative Agent

J.P. MORGAN SECURITIES INC.,
as Sole Lead Arranger and Bookrunner

[CS&M Reference No. 6700-787]

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Exhibit F	— Security Agreement
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AMENDED AND RESTATED CREDIT AGREEMENT dated as of August 4, 1999, as amended and restated as of February 6, 2006, among ON SEMICONDUCTOR CORPORATION, SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC, the LENDERS party hereto and JPMORGAN CHASE BANK, N.A., as Administrative Agent.

WHEREAS, Holdings, the Borrower, certain lenders party thereto and the Administrative Agent are parties to the Amended and Restated Credit Agreement dated as of August 4, 1999, as amended and restated as of December 23, 2004 and as further amended as of November 4, 2005 (as in effect immediately prior to the Restatement Effective Date (as defined herein), the "Existing Credit Agreement");

WHEREAS, Holdings, the Borrower, the Restatement Lenders (as defined therein) and the Administrative Agent are parties to an Amendment and Restatement Agreement dated as of February 6, 2006 (the "Amendment and Restatement Agreement"); and

WHEREAS, subject to the satisfaction of the conditions set forth in the Amendment and Restatement Agreement, the Existing Credit Agreement shall be amended and restated as provided herein.

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate

"Actual Alternative Currency LC Exposure" means, at any time, the sum of (a) the Dollar Equivalent of the aggregate undrawn amount of all outstanding Alternative Currency Letters of Credit at such time plus (b) the Dollar Equivalent of the aggregate principal amount of all LC Disbursements in respect of Alternative Currency Letters of Credit that have not yet been reimbursed by or on behalf of the Borrower at such time.

"Actual LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit (other than Alternative Currency Letters of Credit) at such time plus (b) the aggregate amount of all LC Disbursements (other than LC Disbursements in respect of Alternative Currency Letters of Credit) that

have not yet been reimbursed by or on behalf of the Borrower at such time plus (c) the Actual Alternative Currency LC Exposure at such time. The Actual LC Exposure of any Revolving Lender at any time shall be its Applicable Percentage of the total Actual LC Exposure at such time.

“Actual Revolving Exposure” means, with respect to any Lender at any time, the sum of (a) the outstanding principal amount of such Lender’s Revolving Loans, (b) such Lender’s Actual LC Exposure and (c) such Lender’s Swingline Exposure at such time.

“Adjusted LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/1000 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

“Administrative Agent” means JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent for the Lenders hereunder.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. Notwithstanding the foregoing, no individual shall be deemed to be an Affiliate of a Person solely by reason of his or her being an officer or director of such Person.

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

“Alternative Currency” means any currency that is freely available, freely transferable and freely convertible into dollars and in which dealings in deposits are carried on in the New York, London or Tokyo interbank markets, provided no such currency (other than British pounds, euros and Japanese yen) shall constitute an “Alternative Currency” unless approved by the Administrative Agent and the Issuing Bank.

“Alternative Currency Letter of Credit” means a Letter of Credit denominated in an Alternative Currency.

“Amendment and Restatement Agreement” has the meaning given to such term in the recitals hereto.

“Applicable Percentage” means, with respect to any Revolving Lender, the percentage of the total Revolving Commitments represented by such Lender’s Revolving Commitment. If the Revolving Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Revolving Commitments most recently in effect, giving effect to any assignments.

“Applicable Rate” means (a) with respect to any Term Loan, 1.50% per annum, in the case of an ABR Loan, or 2.50% per annum, in the case of a Eurodollar Loan provided that the Applicable Rate shall be 1.25% per annum, in the case of an ABR Loan, or 2.25% per annum, in the case of a Eurodollar Loan, for any day on which (i) the Term Loans shall have a credit rating of at least B2 (with stable outlook) from Moody’s and (ii) the Leverage Ratio is less than or equal to 4.00 to 1.00; (b)(i) with respect to any Revolving Loan for any day on which the Revolving Loans shall have a credit rating of less than B from S&P or less than B2 from Moody’s, 2.00% per annum, in the case of an ABR Loan, or 3.00% per annum, in the case of a Eurodollar Loan, and (ii) with respect to any Revolving Loan for any day on which the Revolving Loans shall have a credit rating of at least B from S&P and at least B2 from Moody’s, 1.75% per annum, in the case of an ABR Loan, or 2.75% per annum, in the case of a Eurodollar Loan; and (c) for any day with respect to the commitment fees payable hereunder, 0.50% per annum; provided that on any day on which an Event of Default has occurred or is continuing, the “Applicable Rate” with respect to any ABR Loan or Eurodollar Loan that is a Revolving Loan shall be 2.00% per annum, in the case of an ABR Loan, or 3.00% per annum, in the case of a Eurodollar Loan.

For purposes of the proviso to clause (a) above, (i) the Leverage Ratio shall be determined as of the end of each fiscal quarter of Holdings’ fiscal year, commencing December 31, 2005, based upon Holdings’ consolidated financial statements delivered pursuant to Section 5.01(a) or (b) and (ii) each change in the Applicable Rate, if any, resulting from a change in the Leverage Ratio shall be effective during the period commencing on and including the date of delivery to the Administrative Agent of such consolidated financial statements indicating such change and ending on the date immediately preceding the effective date of the next such change; provided that until the delivery of Holdings’ consolidated financial statements as of the end of and for the year ended December 31, 2005, the Leverage Ratio shall be deemed to be greater than 4.00 to 1.00 for purposes of determining the Applicable Rate; provided further that the Leverage Ratio shall be deemed to be greater than 4.00 to 1.00 at the option of the Administrative Agent or at the request of the Required Lenders, in each case, if Holdings fails to deliver the consolidated financial statements required to be delivered by it pursuant to Section 5.01(a) or (b) during the period from the expiration of the time for delivery thereof until such consolidated financial statements are delivered.

“Approved Fund” has the meaning assigned to such term in Section 9.04(b)(ii).

“Assessment Rate” means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as “well-capitalized” and within supervisory subgroup “B” (or a comparable successor risk

classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States, provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

“Base CD Rate” means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (b) the Assessment Rate.

“Bermuda IP Subsidiary” means ON Semiconductor Trading Ltd., a Bermuda corporation that is a wholly-owned subsidiary of the Borrower (owned directly by the Borrower).

“Board” means the Board of Governors of the Federal Reserve System of the United States of America.

“Borrower” means Semiconductor Components Industries, LLC, a Delaware limited liability company.

“Borrowing” means (a) Loans of the same Class and Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect, or (b) a Swingline Loan.

“Borrowing Request” means a request by the Borrower for a Borrowing in accordance with Section 2.03.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed, provided that, when used in connection with a Eurodollar Loan, the term “Business Day” shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

“Calculation Date” means (a) the date of issuance of any Alternative Currency Letter of Credit, (b) the last Business Day of each calendar month and (c) if on the last Business Day of any calendar week the total Notional Revolving Exposures exceed 90% of the total Revolving Commitments (giving effect to any reductions in the Revolving Commitments that occur on such day), such Business Day.

“Capital Expenditures” means, for any period, without duplication, (a) the additions to property, plant and equipment and other capital expenditures of the Borrower and its consolidated Subsidiaries that are (or would be) set forth in a consolidated

statement of cash flows of the Borrower for such period prepared in accordance with GAAP and (b) Capital Lease Obligations incurred by the Borrower and its consolidated Subsidiaries during such period, provided that the term “Capital Expenditures” (i) shall be net of landlord construction allowances, (ii) shall not include expenditures made in connection with the repair or restoration of assets with insurance or condemnation proceeds and (iii) shall not include the purchase price of equipment to the extent consideration therefor consists of used or surplus equipment being traded in at such time or the proceeds of a concurrent sale of such used or surplus equipment, in each case in the ordinary course of business.

“Capital Lease Obligations” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital lease obligations on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Change in Control” means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person other than Holdings of any Equity Interest in the Borrower; (b) the failure by TPG to own (and retain the right to vote), directly or indirectly, beneficially and of record, Equity Interests in Holdings representing at least 15% of each of the aggregate ordinary voting power and the aggregate equity value represented by the issued and outstanding Equity Interests in Holdings; (c) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the Effective Date), of Equity Interests representing a greater percentage of either the aggregate ordinary voting power or the aggregate equity value of Holdings than owned, directly or indirectly, beneficially and of record, by TPG; or (d) occupation of a majority of the seats (other than vacant seats) on the board of directors of Holdings by Persons who were neither (i) nominated by the board of directors of Holdings nor (ii) appointed by directors so nominated.

“Change in Law” means (a) the adoption of any law, rule or regulation after the Effective Date, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the Effective Date or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender’s or the Issuing Bank’s holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority first made or issued after the Effective Date.

“China JV” has the meaning given to such term in Section 6.01(a).

“Class”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans, Term Loans or Swingline Loans and, when used in reference to any Commitment, refers to whether such Commitment is a Revolving Commitment or Term Commitment.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Collateral” means any and all “Collateral”, as defined in any applicable Security Document.

“Collateral Agent” means the “Collateral Agent”, as defined in any applicable Security Document.

“Collateral and Guarantee Requirement” means the requirement that:

(a) the Administrative Agent shall have received from each Loan Party either (i) a counterpart of each of the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement, the Pledge Agreement, the Collateral Assignment and the Security Agreement duly executed and delivered on behalf of such Loan Party or (ii) in the case of any Person that becomes a Loan Party after the Effective Date, a supplement to each of the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement, the Pledge Agreement and the Security Agreement, in each case in the form specified therein, duly executed and delivered on behalf of such Loan Party;

(b) all outstanding Equity Interests of the Borrower and each Subsidiary owned directly by or directly on behalf of any Loan Party, shall have been pledged pursuant to the Pledge Agreement (except that the Loan Parties shall not be required to pledge more than 65% of the outstanding voting stock of any Foreign Subsidiary and shall not be required to pledge any Equity Interests in any Foreign Joint Venture Company to the extent that such a pledge is prohibited by the constitutive documents of such Foreign Joint Venture Company or applicable law) and the Collateral Agent shall have received certificates or other instruments representing all such Equity Interests, together with stock powers or other instruments of transfer with respect thereto endorsed in blank;

(c) all Indebtedness of Holdings, the Borrower and each Subsidiary that is owing to any Loan Party shall be evidenced by a promissory note and shall have been pledged pursuant to the Pledge Agreement and the Collateral Agent shall have received all such promissory notes, together with instruments of transfer with respect thereto endorsed in blank; provided that (i) any such promissory note evidencing Indebtedness in an amount less than \$500,000 shall not be required to be so pledged (provided that the aggregate amount of outstanding Indebtedness evidenced by promissory notes that are not pledged pursuant to the Pledge Agreement by reason of this clause shall not exceed \$5,000,000) and (ii) the requirements of this paragraph (c) shall not apply to the extent the Collateral Agent has waived compliance with Section 2(b) of the Pledge Agreement and the Required Lenders have consented to such waiver;

(d) all documents and instruments, including Uniform Commercial Code financing statements, required by law or reasonably requested by the Collateral Agent to be filed, registered or recorded to create the Liens intended to be created by the Security Agreement and the Pledge Agreement (including any supplements thereto), after giving effect to the Restatement Transactions, and perfect such Liens to the extent required by, and with the priority required by, the Security Agreement and the Pledge Agreement, shall have been filed, registered or recorded or delivered to the Collateral Agent for filing, registration or recording;

(e) the Administrative Agent shall have received (i) counterparts of a Mortgage with respect to each Mortgaged Property and amendments to each such Mortgage providing that the Term Loans and the Revolving Loans (in addition to the other Obligations) shall be secured by a Lien on such Mortgaged Property, signed on behalf of the record owner of such Mortgaged Property, (ii) a policy or policies of title insurance issued by a nationally recognized title insurance company, insuring the Lien of each such Mortgage as a valid first Lien on the Mortgaged Property described therein, free of any other Liens except as expressly permitted by Section 6.02, together with such endorsements, coinsurance and reinsurance as the Collateral Agent or the Required Lenders may reasonably request, and (iii) such surveys, abstracts, appraisals, legal opinions and other documents as the Collateral Agent or the Required Lenders may reasonably request with respect to any such Mortgage or Mortgaged Property; and

(f) each Loan Party shall have obtained all material consents and approvals required to be obtained by it in connection with the execution and delivery of all Security Documents (or supplements thereto) to which it is a party, the performance of its obligations thereunder and the granting by it of the Liens thereunder.

“Collateral Assignment” means the Collateral Assignment, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit G, between the Borrower and the Collateral Agent.

“Commitment” means a Revolving Commitment, Term Commitment or any combination thereof (as the context requires).

“Consolidated Cash Interest Expense” means, for any period, the excess of (a) the sum of (i) the interest expense (including (i) the aggregate amount of accrued letter of credit fees and (ii) imputed interest expense in respect of Capital Lease Obligations) of the Borrower and the Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP, (ii) any interest accrued during such period in respect of Indebtedness of the Borrower or any Subsidiary that is required to be capitalized rather than included in consolidated interest expense for such period in accordance with GAAP, (iii) the amount of cash dividends paid on any preferred stock by Holdings during such period and (iv) any cash payments made during such period in respect of obligations referred to in clause (b)(ii) below that were amortized or accrued in a previous period, minus (b) the sum of (i) to the extent included in such consolidated interest expense for

such period, non-cash amounts attributable to amortization of financing costs paid in a previous period, plus (ii) to the extent included in such consolidated interest expense for such period, non-cash amounts attributable to amortization of debt discounts or accrued interest or dividends payable in kind for such period.

“Consolidated EBITDA” means, for any period, Consolidated Net Income for such period plus (a) without duplication and to the extent deducted in determining such Consolidated Net Income, the sum of (i) consolidated interest expense for such period, (ii) consolidated income tax expense for such period, (iii) all amounts attributable to depreciation and amortization for such period, (iv) the aggregate amount of letter of credit fees accrued during such period, (v) all extraordinary charges during such period, (vi) noncash expenses during such period resulting from the grant of stock options and restricted stock to management and employees of Holdings, the Borrower or any of the Subsidiaries, (vii) the aggregate amount of deferred financing expenses for such period, (viii) any non-recurring fees, expenses or premiums related to the redemption, repayment or repurchase of any securities of Holdings or the Borrower, (ix) all other noncash expenses or losses of Holdings, the Borrower or any of the Subsidiaries for such period (excluding any such expense or loss that constitutes an accrual of or a reserve for cash payments to be made in any future period, with the exception of the 2003 Pension Plan Charge), (x) any non-recurring fees, expenses or charges realized by Holdings, the Borrower or any of the Subsidiaries for such period related to any offering of capital stock or incurrence of Indebtedness and (xi) fees and expenses of Alvarez & Marsal, Inc., paid by or reimbursed by the Borrower pursuant to Section 9.03 hereof and minus (b) without duplication and to the extent included in determining such Consolidated Net Income, (i) any extraordinary gains for such period, (ii) all noncash items increasing Consolidated Net Income for such period (excluding any items that represent the reversal of any accrual of, or cash reserve for, anticipated cash charges in any prior period), (iii) all gains during such period attributable to any sale or disposition of assets (other than in the ordinary course of business) and (iv) \$1.6 million for each fiscal quarter commencing the fiscal quarter ended April 4, 2003, and for each subsequent fiscal quarter until the entire 2003 Pension Plan Charge has been recouped, all determined on a consolidated basis in accordance with GAAP. For purposes of calculating the Leverage Ratio as of any date, if the Borrower or any consolidated Subsidiary has made any Permitted Acquisition or sale, transfer, lease or other disposition of assets outside of the ordinary course of business permitted by Section 6.05 during the period of four consecutive fiscal quarters ending on the date on which the most recent fiscal quarter ended, Consolidated EBITDA for the relevant period for testing compliance shall be calculated after giving pro forma effect thereto, as if such Permitted Acquisition or sale, transfer, lease or other disposition of assets outside of the ordinary course of business (and any related incurrence, repayment or assumption of Indebtedness with any new Indebtedness being deemed to be amortized over the applicable testing period in accordance with its terms) had occurred on the first day of the relevant period for testing compliance.

“Consolidated Net Income” means, for any period, the net income or loss of Holdings, the Borrower and the Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, provided that there shall be excluded from such net income or loss (a) the income of any Person (other than a consolidated

Subsidiary) in which any other Person (other than Holdings, the Borrower or any consolidated Subsidiary or any director holding qualifying shares in compliance with applicable law) owns an Equity Interest, except to the extent of the amount of dividends or other distributions actually paid to the Borrower or any of the consolidated Subsidiaries by such Person during such period, and (b) the income or loss of any Person accrued prior to the date on which it becomes a Subsidiary or is merged into or consolidated with the Borrower or any consolidated Subsidiary or the date on which such Person's assets are acquired by the Borrower or any consolidated Subsidiary.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. The terms “Controlling” and “Controlled” have meanings correlative thereto.

“Czech Subsidiary” means SCG Czech Design Center s.r.o., a limited liability company existing under the laws of the Czech Republic.

“Default” means any event or condition that constitutes an Event of Default or that upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Disclosed Matters” means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

“dollars” or “\$” refers to lawful money of the United States of America.

“Dollar Equivalent” means, on any date of determination, with respect to any Letter of Credit or LC Disbursement denominated in an Alternative Currency, the equivalent in dollars of such amount, determined by the Administrative Agent pursuant to Section 1.05(a) using the applicable Exchange Rate with respect to such Alternative Currency.

“Effective Date” means August 4, 1999, the date on which the conditions specified in Section 4.01 of the Original Credit Agreement were satisfied.

“Environmental Laws” means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by or with any Governmental Authority, relating in any way to the environment, preservation or restoration of natural resources, the management, Release or threatened Release of any Hazardous Material or to health and safety matters.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, administrative oversight costs, fines, penalties or indemnities), of Holdings, the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the Release or threatened Release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan under Section 4042 of ERISA; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

“Eurodollar”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

“Event of Default” has the meaning assigned to such term in Article VII.

“Excess Cash Flow” means, for any fiscal year, the sum (without duplication) of:

- (a) Consolidated Net Income for such fiscal year, adjusted to exclude any gains or losses attributable to Prepayment Events; plus
- (b) depreciation, amortization and other non-cash charges or losses deducted in determining such Consolidated Net Income for such fiscal year; plus

(c) the sum of (i) the amount, if any, by which Net Working Capital decreased during such fiscal year plus (ii) the net amount, if any, by which the consolidated deferred revenues of Holdings, the Borrower and the consolidated Subsidiaries increased during such fiscal year; minus

(d) the sum of (i) any non-cash gains included in determining such Consolidated Net Income for such fiscal year plus (ii) the amount, if any, by which Net Working Capital increased during such fiscal year plus (iii) the net amount, if any, by which the consolidated deferred revenues of Holdings, the Borrower and the consolidated Subsidiaries decreased during such fiscal year; minus

(e) Capital Expenditures for such fiscal year (except (i) to the extent attributable to the incurrence of Capital Lease Obligations or otherwise financed by incurring Long-Term Indebtedness or (ii) Capital Expenditures made pursuant to the proviso to Section 2.11(c)(i)); minus

(f) the aggregate principal amount of Long-Term Indebtedness repaid or prepaid by the Borrower and the consolidated Subsidiaries during such fiscal year, excluding (i) Indebtedness in respect of Revolving Loans and Letters of Credit, (ii) Term Loans prepaid pursuant to Section 2.11(a), 2.11(c) or 2.11 (d), (iii) repayments or prepayments of Long-Term Indebtedness financed by incurring other Long-Term Indebtedness and (iv) repayments or prepayments of Long-Term Indebtedness financed with the Net Proceeds of any issuance of Equity Interests by Holdings; minus

(g) the aggregate amount of all prepayments of Revolving Loans made during such period to the extent accompanying reductions of the total Revolving Commitments.

“Exchange Rate” means, on any day, with respect to any Alternative Currency, the rate at which such Alternative Currency may be exchanged into dollars, as set forth at approximately 11:00 a.m., New York City time, on such day on the applicable Reuters World Spot Page. In the event that any such rate does not appear on any Reuters World Spot Page, the Exchange Rate shall be determined by reference to such other publicly available service for displaying exchange rates reasonably selected by the Administrative Agent in consultation with the Borrower for such purpose or, at the discretion of the Administrative Agent in consultation with the Borrower, such Exchange Rate shall instead be the arithmetic average of the spot rates of exchange of the Administrative Agent in the market where its foreign currency exchange operations in respect of such Alternative Currency are then being conducted, at or about 10:00 a.m., local time, on such day for the purchase of the applicable Alternative Currency for delivery two Business Days later, provided that, if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent may in consultation with the Borrower use any other reasonable method it deems appropriate to determine such rate, and such determination shall be presumed correct absent manifest error.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender, any Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) doing business, income or franchise taxes imposed on (or measured by) its net income, capital or any similar alternate basis by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction described in clause (a) above and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(b)), any withholding tax that (i) is in effect and would apply to amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to any withholding tax pursuant to Section 2.17(a), or (ii) is attributable to such Foreign Lender’s failure to comply with Section 2.17(e).

“Existing Credit Agreement” has the meaning given to such term in the recitals hereto.

“Existing Letters of Credit” means any letters of credit issued pursuant to the Existing Credit Agreement and outstanding immediately prior to the Restatement Effective Date.

“Existing Revolving Loan” means a revolving loan made pursuant to Section 2.01 of the Existing Credit Agreement and outstanding immediately prior to the Restatement Effective Date.

“Facilities Transfer” means the transfer by the Borrower and/or one or more of its Subsidiaries of the packaging and testing facilities located in Carmona, Philippines, Seremban, Malaysia and Guadalajara, Mexico, which transfer may involve one or more transactions or series of transactions taking the form of (i) sales, leases or other transfers or dispositions of assets, (ii) sales or other transfers or dispositions of capital stock and/or debt securities of Subsidiaries that directly or indirectly own such facilities, (iii) other types of transfers or dispositions, (iv) facilities closures or (v) any one or combination of the foregoing.

“Federal Funds Effective Rate” means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

“Financial Officer” means a chief financial officer, principal accounting officer, treasurer or controller.

“Foreign Joint Venture Companies” means (a) Leshan-Phoenix Semiconductor Co., Ltd., an entity existing under the laws of the People’s Republic of China, (b) Surface Mount Products Malaysia Sendirian Berhad, a private limited liability company existing under the laws of Malaysia, and (c) ON Semiconductor Czech Republic, a.s., a corporation existing under the laws of the Czech Republic.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Foreign Subsidiary” means any Subsidiary that is organized under the laws of a jurisdiction other than the United States of America or any State thereof or the District of Columbia.

“Funded Indebtedness” means, as of any date, the aggregate principal amount of Indebtedness of Holdings, the Borrower and the Subsidiaries outstanding as of such date (other than any Indebtedness with respect to which the Borrower is not obligated to pay or accrue any cash interest expense as of such date), in the amount that would be reflected on a balance sheet prepared as of such date on a consolidated basis in accordance with GAAP.

“GAAP” means generally accepted accounting principles in the United States of America.

“Governmental Authority” means the government of the United States of America or any other nation, or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantee” of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation, provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business.

“Guarantee Agreement” means the Guarantee Agreement, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit C, among Holdings, the Subsidiary Loan Parties and the Collateral Agent for the benefit of the Secured Parties.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes, and all substances or wastes of any nature regulated pursuant to any Environmental Law.

“Hedging Agreement” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or the Subsidiaries shall be a Hedging Agreement.

“Holdings” means ON Semiconductor Corporation (formerly known as SCG Holding Corporation), a Delaware corporation.

“Indebtedness” of any Person means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers’ acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person’s ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor. Notwithstanding anything to the contrary in this paragraph, the term “Indebtedness” shall

not include (a) obligations under Hedging Agreements or (b) agreements providing for indemnification, purchase price adjustments or similar obligations incurred or assumed in connection with the acquisition or disposition of assets or stock.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Indemnity, Subrogation and Contribution Agreement” means the Indemnity, Subrogation and Contribution Agreement, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit D, among the Borrower, the Subsidiary Loan Parties and the Collateral Agent.

“Information Memorandum” means the Confidential Information Memorandum dated January 2006, relating to the Borrower and the Restatement Transactions.

“Interest Election Request” means a request by the Borrower to convert or continue a Revolving Borrowing or Term Borrowing in accordance with Section 2.07.

“Interest Expense Coverage Ratio” means, for any period, the ratio of (a) Consolidated EBITDA to (b) Consolidated Cash Interest Expense, in each case for such period.

“Interest Payment Date” means (a) with respect to any ABR Loan (other than a Swingline Loan), the last day of each March, June, September and December, (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three month’s duration, each day prior to the last day of such Interest Period that occurs at intervals of three month’s duration after the first day of such Interest Period, and (c) with respect to any Swingline Loan, the day that such Loan is required to be repaid.

“Interest Period” means, with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect, provided that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“IP License” means the license agreement or agreements between the Borrower and the Bermuda IP Subsidiary providing for the licensing of intellectual property to the Bermuda Subsidiary of the Borrower.

“Issuing Bank” means, as the context may require, (a) JPMorgan Chase Bank, N.A., in its capacity as an issuer of Letters of Credit hereunder, with respect to Letters of Credit issued by it, and (b) any other Revolving Lender that becomes an Issuing Bank pursuant to Section 2.05(i), with respect to Letters of Credit issued by it, and, in each case, its successors in such capacity as provided in Section 2.05(i). An Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of such Issuing Bank, in which case the term “Issuing Bank” shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

“Joint Venture Holding Companies” means SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation and SCG (China) Holding Corporation, each a Delaware corporation.

“LC Disbursement” means a payment made by an Issuing Bank pursuant to a Letter of Credit.

“Lenders” means the Persons listed in Schedule I to the Amendment and Restatement Agreement and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance. Unless the context otherwise requires, the term “Lenders” includes the Swingline Lender.

“Leshan JV Agreement” means the Joint Venture Contract dated as of March 1, 1995, by and between Leshan Radio Company, Ltd. and Motorola International Development Corporation.

“Letter of Credit” means any letter of credit (including any Existing Letter of Credit) issued pursuant to this Agreement.

“Leverage Ratio” means, on any date, the ratio of (a) Funded Indebtedness as of such date to (b) Consolidated EBITDA for the period of four consecutive fiscal quarters of Holdings ended on such date (or, if such date is not the last day of a fiscal quarter, ended on the last day of the fiscal quarter of Holdings most recently ended prior to such date).

“LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Dow Jones Market Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the LIBO Rate with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of

the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Loan Documents” means this Agreement, the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement, the Security Documents and the Amendment and Restatement Agreement.

“Loan Parties” means Holdings, the Borrower and the Subsidiary Loan Parties.

“Loan Transactions” means the execution, delivery and performance by each Loan Party of the Loan Documents to which it is to be a party, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

“Loans” means the loans made and the loans continued by the Lenders to the Borrower pursuant to this Agreement or the Amendment and Restatement Agreement.

“Long-Term Indebtedness” means any Indebtedness that, in accordance with GAAP, constitutes (or, when incurred, constituted) a long-term liability.

“Material Adverse Effect” means a material adverse effect on (a) the business, assets, operations, properties, financial condition or prospects of Holdings, the Borrower and the Subsidiaries, taken as a whole, (b) the ability of the Loan Parties to perform their obligations under the Loan Documents or (c) any material rights of or benefits available to the Lenders under the Loan Documents.

“Material Indebtedness” means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of Holdings, the Borrower and the Subsidiaries in an aggregate principal amount exceeding \$10,000,000. For purposes of determining Material Indebtedness, the “principal amount” of the obligations of Holdings, the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that Holdings, the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

“Measurement Period” has the meaning assigned to such term in Section 6.14.

“Moody’s” means Moody’s Investors Service, Inc.

“Mortgage” means a mortgage, deed of trust, assignment of leases and rents, leasehold mortgage or other security document granting a Lien on any Mortgaged Property to secure the Obligations. Each Mortgage shall be reasonably satisfactory in form and substance to the Collateral Agent.

“Mortgaged Property” means, initially, each parcel of real property and the improvements thereto owned by a Loan Party and identified on Schedule 1.01 and includes each other parcel of real property and improvements thereto with respect to which a Mortgage is granted pursuant to Section 5.12 or 5.13.

“Motorola” means Motorola, Inc., a Delaware corporation.

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Net Proceeds” means, with respect to any event (a) the cash proceeds received in respect of such event, including (i) any cash received in respect of any non-cash proceeds, but only as and when received, (ii) in the case of a casualty or other insured damage, insurance proceeds in excess of \$1,000,000, and (iii) in the case of a condemnation or similar event, condemnation awards and similar payments, net of (b) the sum of (i) all reasonable fees and out-of-pocket expenses (including underwriting discounts and commissions and collection expenses) paid or payable by Holdings, the Borrower and the Subsidiaries to third parties in connection with such event, (ii) in the case of a sale, transfer or other disposition of an asset (including pursuant to a sale and leaseback transaction or a casualty or a condemnation or similar proceeding), the amount of all payments required to be made by Holdings, the Borrower and the Subsidiaries as a result of such event to repay Indebtedness (other than Loans) secured by such asset or otherwise subject to mandatory prepayment as a result of such event, and (iii) the amount of all taxes paid (or reasonably estimated to be payable) by Holdings, the Borrower and the Subsidiaries, and the amount of any reserves established by Holdings, the Borrower and the Subsidiaries to fund contingent liabilities reasonably estimated to be payable, in each case during the year that such event occurred or the next succeeding year and that are directly attributable to such event (as determined reasonably and in good faith by the chief financial officer of the Borrower). Notwithstanding anything to the contrary set forth above, the proceeds of any sale, transfer or other disposition of Receivables or Related Property (or any interest therein) pursuant to any Permitted Receivables Financing shall not be deemed to constitute Net Proceeds except to the extent that such sale, transfer or other disposition (a) is the initial sale, transfer or other disposition of Receivables or Related Property (or any interest therein) in connection with the establishment of such Permitted Receivables Financing or (b) occurs in connection with an increase in the aggregate outstanding amount of such Permitted Receivables Financing over the aggregate outstanding amount of such Permitted Receivables Financing at the time of such initial sale, transfer or other disposition.

“Net Working Capital” means, at any date, (a) the consolidated current assets and non-current deferred income tax assets of Holdings, the Borrower and the consolidated Subsidiaries as of such date (excluding cash and Permitted Investments)

minus (b) the consolidated current liabilities and non-current deferred income tax liabilities of Holdings, the Borrower and the consolidated Subsidiaries as of such date (excluding current liabilities that constitute Indebtedness). Net Working Capital at any date may be a positive or negative number. Net Working Capital increases when it becomes more positive or less negative and decreases when it becomes less positive or more negative.

“Notional Alternative Currency LC Exposure” means, at any time, 110% of the Actual Alternative Currency LC Exposure at such time.

“Notional LC Exposure” means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit (other than Alternative Currency Letters of Credit) at such time plus (b) the aggregate amount of all LC Disbursements (other than LC Disbursements in respect of Alternative Currency Letters of Credit) that have not yet been reimbursed by or on behalf of the Borrower at such time plus (c) the Notional Alternative Currency LC Exposure at such time. The Notional LC Exposure of any Revolving Lender at any time shall be its Applicable Percentage of the total Notional LC Exposure at such time.

“Notional Revolving Exposure” means, with respect to any Lender at any time, the sum of (a) the outstanding principal amount of such Lender’s Revolving Loans and (b) such Lender’s Notional LC Exposure and Swingline Exposure at such time.

“Obligations” has the meaning assigned to such term in the Security Agreement.

“1.875% Convertible Notes” means the 1.875% Convertible Senior Subordinated Notes due 2025 issued by Holdings in the aggregate principal amount of \$95,000,000 and the Indebtedness represented thereby (including the Note Guarantees (as defined in 1.875% Convertible Notes Documents) and any replacement Notes).

“1.875% Convertible Notes Documents” means the indenture under which the 1.875% Convertible Notes were issued and all other instruments, agreements and other documents evidencing or governing the 1.875% Convertible Notes or providing for any Guarantee or other right in respect thereof.

“Original Credit Agreement” means the Credit Agreement dated as of August 4, 1999, among Holdings, the Borrower, the Lenders party thereto, The Chase Manhattan Bank, a New York banking corporation, as administrative agent, collateral agent and syndication agent and Credit Lyonnais New York Branch, DLJ Capital Funding, Inc. and Lehman Commercial Paper, as co-documentation agents thereunder. For the avoidance of doubt, this Agreement constitutes, as of the date hereof, the latest in a series of amendments and restatements of the Original Credit Agreement.

“Other Taxes” means any and all current or future recording, stamp, documentary, excise, transfer, sales, property or similar taxes, charges or levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Perfection Certificate” means a certificate in the form of Annex 2 to the Security Agreement or any other form approved by the Borrower and the Administrative Agent.

“Permitted Acquisition” means any acquisition (whether by purchase, merger, consolidation or otherwise) by the Borrower or any consolidated Subsidiary of all or substantially all the assets of, or all the Equity Interests in, a Person or division or line of business of a Person if, at the time of and immediately after giving effect thereto, (a) no Default has occurred and is continuing or would result therefrom, (b) the principal business of such Person shall be reasonably related to a business in which the Borrower and the Subsidiaries were engaged on the Effective Date, (c) each Subsidiary formed for the purpose of or resulting from such acquisition shall be a Subsidiary Loan Party and all of the Equity Interests of such Subsidiary Loan Party shall be owned directly by the Borrower or a consolidated Subsidiary Loan Party and all actions required to be taken with respect to such acquired or newly formed Subsidiary Loan Party under Sections 5.12 and 5.13 shall have been taken and (d) Holdings has delivered to the Administrative Agent an officers’ certificate to the effect set forth in clauses (a), (b) and (c) above.

“Permitted Convertible Debt” means Indebtedness of Holdings or of Holdings and the Borrower in respect of subordinated convertible debt securities (i) that is unsecured and subordinated to the Obligations on terms no less favorable to the Lenders than the terms of the Zero Coupon Convertible Subordinated Debt, (ii) that does not provide for scheduled payments of principal earlier than 91 days after the final scheduled repayment of principal of the Term Loans (determined assuming that the Term Loans mature on the latest possible maturity date contemplated hereunder), (iii) that is convertible into common equity of Holdings and (iv) the other terms (excluding the aggregate principal amount and conversion rate thereof) of which are reasonably satisfactory to the Administrative Agent in all material respects, provided that such other terms shall not require approval by the Administrative Agent if they are no less favorable, in any material respect, to the interests of the Lenders than the terms of the 1.875% Convertible Notes, as in effect on the Restatement Effective Date. The Zero Coupon Convertible Subordinated Debt and the 1.875% Convertible Notes constitute Permitted Convertible Debt, based upon their terms in effect on the Restatement Effective Date.

“Permitted Convertible Debt Documents” means any indenture under which any Permitted Convertible Debt is issued and all other instruments, agreements and other documents evidencing or governing any Permitted Convertible Debt or providing for any Guarantee or other right in respect thereof, including the Zero Coupon Convertible Subordinated Debt Documents and the 1.875% Convertible Notes Documents.

“Permitted Encumbrances” means:

- (a) Liens imposed by law for taxes or other governmental charges that are not yet due or are being contested in compliance with Section 5.05;
- (b) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.05;
- (c) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations;
- (d) Liens (other than Liens on Collateral) to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;
- (e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VII;
- (f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business and minor defects or irregularities in title that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower or any Subsidiary;
- (g) ground leases in respect of real property on which facilities owned or leased by the Borrower or any of the Subsidiaries are located;
- (h) any interest or title of a lessor under any lease permitted by this Agreement;
- (i) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods; and
- (j) leases or subleases, or licenses or sublicenses, granted to other Persons and not interfering in any material respect with the business of the Borrower and the Subsidiaries, taken as a whole,

provided that the term “Permitted Encumbrances” shall not include any Lien securing Indebtedness.

“Permitted Investments” means:

- (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America);
- (b) investments in commercial paper maturing not more than one year after the date of acquisition thereof and having, at such date of acquisition, one of the two highest credit ratings obtainable from S&P or from Moody’s;
- (c) investments in certificates of deposit, banker’s acceptances and time deposits maturing not more than one year after the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts and overnight bank deposits issued or offered by, any commercial bank organized under the laws of the United States of America or any State thereof or any foreign country recognized by the United States of America that has a combined capital and surplus and undivided profits of not less than \$250,000,000 (or the foreign-currency equivalent thereof);
- (d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above or clause (e) or (f) below and entered into with a financial institution satisfying the criteria described in clause (c) above;
- (e) securities issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof having maturities of not more than six months from the date of acquisition thereof and, at the time of acquisition, having one of the two highest credit ratings obtainable from S&P or from Moody’s;
- (f) securities issued by any foreign government or any political subdivision of any foreign government or any public instrumentality thereof having maturities of not more than six months from the date of acquisition thereof and, at the time of acquisition, having one of the two highest credit ratings obtainable from S&P or from Moody’s; and
- (g) investments in funds that invest solely in one or more types of securities described in clauses (a), (e) and (f) above.

“Permitted Receivables Financing” means any financing pursuant to which (a) the Borrower or any Subsidiary sells, conveys or otherwise transfers to a Receivables Subsidiary, in “true sale” transactions, and (b) such Receivables Subsidiary sells, conveys or otherwise transfers to any other Person or grants a security interest to any other Person in, any Receivables (whether now existing or hereafter acquired) of the Borrower or any Subsidiary or any undivided interest therein, and any assets related thereto (including all collateral securing such Receivables), all contracts and all Guarantees or other obligations in respect of such Receivables, proceeds of such Receivables and other assets that are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving Receivables, provided that the board of directors of Holdings shall have determined in good faith that such Permitted Receivables Financing is economically fair and reasonable to Holdings, the Borrower and the Subsidiaries, taken as a whole.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is an “employer” as defined in Section 3(5) of ERISA.

“Pledge Agreement” means the Pledge Agreement, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit E, among the Loan Parties and the Collateral Agent for the benefit of the Secured Parties, as amended from time to time.

“Prepayment Event” means:

(a) any sale, transfer or other disposition (including pursuant to a Permitted Receivables Financing or a sale and leaseback transaction (other than a sale and leaseback transaction permitted by Section 6.06) of any property or asset of the Borrower or any Subsidiary, including any Equity Interest owned by it, other than (i) dispositions described in clauses (a) and (b) of Section 6.05, (ii) dispositions described in clause (f) of Section 6.05 (up to \$30,000,000 in aggregate Net Proceeds) and (iii) other dispositions resulting in aggregate Net Proceeds not exceeding \$1,000,000 during any fiscal year of the Borrower; or

(b) any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, any property or asset of the Borrower or any Subsidiary, but only to the extent that the Net Proceeds therefrom have not been applied to repair, restore or replace such property or asset within 365 days after such event; or

(c) the incurrence by Holdings, the Borrower or any Subsidiary of any Indebtedness, excluding any Indebtedness permitted by Section 6.01.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, N.A. as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Qualified Liquidity Financing” means the issuance by Holdings of preferred stock, common stock or warrants in respect of preferred stock or common stock to TPG, or the incurrence by Holdings or the Borrower of Indebtedness for borrowed money owed to TPG, in each case for cash consideration; provided that (a) any such Indebtedness shall be unsecured, (b) the terms of any such preferred stock or Indebtedness shall not include any covenants, redemption provisions, events of default or other terms

that would entitle the holder thereof to make any claim or assert any right or remedy prior to payment in full of the Obligations and termination of the Commitments and (c) prior to any such issuance of preferred stock or incurrence of Indebtedness, TPG and Holdings or the Borrower, as applicable, shall have entered into an agreement with the Administrative Agent, in form and substance reasonably satisfactory to the Administrative Agent, effectively subordinating any and all obligations in respect of such preferred stock or Indebtedness to the Obligations and providing that, prior to repayment in full of all the Obligations and termination of the Commitments, the holder or holders of such preferred stock or Indebtedness, as applicable, shall not be entitled to receive any cash payments in respect thereof or to exercise any rights or remedies (other than, in the case of clauses (b) and (c) above, rights and remedies the exercise of which would not constitute or result in a Default).

“Recapitalization Agreement” means the Agreement and Plan of Recapitalization and Merger dated as of May 11, 1999, among Motorola, Holdings, the Borrower, the TPG Semiconductor Holdings LLC and TPG Semiconductor Acquisition Corp., as amended.

“Receivable” means the Indebtedness and payment obligations of any Person to the Borrower or any of the Subsidiaries or acquired by the Borrower or any of the Subsidiaries (including obligations constituting an account or general intangible or evidenced by a note, instrument, contract, security agreement, chattel paper or other evidence of indebtedness or security) arising from a sale of merchandise or the provision of services by the Borrower or any Subsidiary or the Person from which such Indebtedness and payment obligation were acquired by the Borrower or any of the Subsidiaries, including (a) any right to payment for goods sold or for services rendered and (b) the right to payment of any interest, sales taxes, finance charges, returned check or late charges and other obligations of such Person with respect thereto.

“Receivables Subsidiary” means a corporation or other entity that is a newly formed, wholly owned, bankruptcy-remote, special purpose subsidiary of Holdings, the Borrower or any wholly owned Subsidiary (a) that engages in no activities other than in connection with the financing of Receivables, all proceeds thereof and all rights (contractual or other), collateral and other assets relating thereto, and any business or activities incidental or related to such business (including servicing of Receivables), (b) that is designated by the board of directors of the Borrower (as provided below) as a Receivables Subsidiary, (c) of which no portion of its Indebtedness or any other obligations (contingent or otherwise) (i) is Guaranteed by Holdings, the Borrower or any Subsidiary (other than pursuant to Standard Securitization Undertakings), (ii) is recourse to or obligates Holdings, the Borrower or any Subsidiary in any way other than pursuant to Standard Securitization Undertakings and other than any obligation to sell or transfer Receivables or (iii) subjects any property or asset of Holdings, the Borrower or any Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, (d) with which none of Holdings, the Borrower or any Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Permitted Receivables Financing) other than on terms no less favorable to Holdings, the Borrower or such Subsidiary than those that might be obtained at the time from Persons

that are not Affiliates of Holdings, other than fees payable in the ordinary course of business in connection with servicing Receivables, and (e) to which none of Holdings, the Borrower or any Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results. Upon any such designation, a Financial Officer of the Borrower shall deliver a certificate to the Administrative Agent certifying (a) the resolution of the board of directors of the Borrower giving effect to such designation, (b) that, to the best of such officer's knowledge and belief after consulting with counsel, such designation complied with the foregoing conditions and (c) immediately after giving effect to such designation, no Default shall have occurred and be continuing.

"Register" has the meaning set forth in Section 9.04(b).

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Related Property" shall mean, with respect to each Receivable:

(a) all the interest of the Borrower or any Subsidiary in the goods, if any, sold and delivered to an obligor relating to the sale that gave rise to such Receivable,

(b) all other security interests or Liens, and the interest of the Borrower or any Subsidiary in the property subject thereto, from time to time purporting to secure payment of such Receivable, together with all financing statements signed by an obligor describing any collateral securing such Receivable and

(c) all guarantees, insurance, letters of credit and other agreements or arrangements of whatever character from time to time supporting or securing payment of such Receivable,

in the case of clauses (b) and (c), whether pursuant to the contract related to such Receivable or otherwise or pursuant to any obligations evidenced by a note, instrument, contract, security agreement, chattel paper or other evidence of Indebtedness or security and the proceeds thereof.

"Release" means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

"Required Lenders" means, at any time, Lenders having Actual Revolving Exposures, Term Loans and unused Commitments representing more than 50% of the sum of the total Actual Revolving Exposures, outstanding Term Loans and unused Commitments at such time.

“Restatement Effective Date” has the meaning given to such term in the Amendment and Restatement Agreement.

“Restatement Transactions” means the execution and delivery of the Amendment and Restatement Agreement by each Person party thereto, the satisfaction of the conditions to the effectiveness thereof and the consummation of the transactions contemplated thereby, including the borrowing of the Term Loans and the application of the proceeds thereof.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interests in Holdings, the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancelation or termination of any Equity Interests in Holdings, the Borrower or any Subsidiary or any option, warrant or other right to acquire any such Equity Interests in Holdings, the Borrower or any Subsidiary.

“Revolving Availability Period” means the period from and including the Restatement Effective Date to but excluding the earlier of the Revolving Maturity Date and the date of termination of the Revolving Commitments.

“Revolving Commitment” means, with respect to each Lender, the commitment, if any, of such Lender to make Revolving Loans and to acquire participations in Letters of Credit and Swingline Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Actual Revolving Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender’s Revolving Commitment is set forth on Schedule I to the Amendment and Restatement Agreement or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Revolving Commitment, as applicable. The initial aggregate amount of the Lenders’ Revolving Commitments is \$25,000,000.

“Revolving Lender” means a Lender with a Revolving Commitment or, if the Revolving Commitments have terminated or expired, a Lender with Actual Revolving Exposure.

“Revolving Loan” means a Loan made pursuant to the first sentence of Section 2.01.

“Revolving Maturity Date” means August 4, 2008, or, if such day is not a Business Day, the next preceding Business Day.

“S&P” means Standard & Poor’s Rating Service.

“SMP JV Agreement” means the Joint Venture Agreement dated as of July 31, 1992, and August 17, 1992, by and between Motorola and Philips Semiconductors International B.V.

“Secured Parties” has the meaning assigned to such term in the Security Agreement.

“Security Agreement” means the Security Agreement, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit E, among the Borrower, Holdings, the Subsidiary Loan Parties and the Collateral Agent for the benefit of the Secured Parties, as amended from time to time.

“Security Documents” means the Security Agreement, the Collateral Assignment, the Pledge Agreement, the Mortgages and each other security agreement or other instrument or document executed and delivered pursuant to Section 5.12 or 5.13 to secure any of the Obligations.

“Senior Leverage Ratio” means, on any date, the ratio of (a) Total Senior Indebtedness as of such date to (b) Consolidated EBITDA for the period of four consecutive fiscal quarters of Holdings ended on such date.

“Standard Securitization Undertakings” means representations, warranties, covenants and indemnities entered into at any time by Holdings, the Borrower or any Subsidiary that are reasonably customary in an accounts receivable transaction.

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in dollars of over \$100,000 with maturities approximately equal to three months and (b) with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

“Subsidiary” means any subsidiary of Holdings other than the Borrower. Without limiting the generality of the definition of the term “subsidiary”, it is understood and agreed that each of (a) ON Semiconductor Czech Republic, a.s., a corporation existing under the laws of the Czech Republic (formerly known as Terosil, a.s.), (b) ON Semiconductor Slovakia a.s. (formerly known as Slovakia Electronic Industries, a.s.), a corporation existing under the laws of Slovakia, (c) Leshan-Phoenix Semiconductor Co., Ltd., an entity existing under the laws of the People’s Republic of China, and (d) the Czech Subsidiary is a subsidiary of Holdings as of the Restatement Effective Date.

“Subsidiary Loan Party” means any Subsidiary that is not a Foreign Subsidiary or a Receivables Subsidiary.

“Swingline Exposure” means, at any time, the aggregate principal amount of all Swingline Loans outstanding at such time. The Swingline Exposure of any Revolving Lender at any time shall be its Applicable Percentage of the total Swingline Exposure at such time.

“Swingline Lender” means JPMorgan Chase Bank, N.A. in its capacity as lender of Swingline Loans hereunder.

“Swingline Loan” means a Loan made pursuant to Section 2.04.

“Taxes” means any and all current or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“Term Commitment” has the meaning set forth in Section 3 of the Amendment and Restatement Agreement.

“Term Lender” means a Lender with a Term Commitment or an outstanding Term Loan.

“Term Loan” means a Loan made pursuant to Section 3 of the Amendment and Restatement Agreement.

“Term Loan Maturity Date” means December 15, 2011; provided that if more than \$50,000,000 of Specified Securities (as defined below) are outstanding on the Trigger Date (as defined below), the “Term Loan Maturity Date” shall be the Trigger Date. For purposes hereof (a) “Specified Securities” means (i) the Zero Coupon Convertible Subordinated Debt or (ii) any securities issued to refinance the Zero Coupon Convertible Subordinated Debt or any other Specified Securities (including pursuant to an exchange offer) pursuant to a refinancing thereof permitted by this Agreement; and (b) “Trigger Date” means (i) December 15, 2009, or (ii) if, as of December 15, 2009 (or any later Trigger Date) all the Specified Securities (other than up to \$50,000,000 aggregate principal amount thereof) have terms that do not require any payment of principal pursuant to a scheduled payment or “put” rights exercisable by the holders thereof prior to the date six months after December 15, 2009 (or such later Trigger Date, as applicable), then the date that is six months prior to the earliest date on which any payment of principal in respect of such Specified Securities may be required pursuant to a scheduled payment or any such “put” rights, provided that the Trigger Date shall not be later than December 15, 2011.

“Three-Month Secondary CD Rate” means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding Business Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

“Total Senior Indebtedness” means, as of any date, the aggregate principal amount of Indebtedness of Holdings, the Borrower and the Subsidiaries outstanding on such date, determined on a consolidated basis, excluding any Permitted Convertible Debt, Qualified Liquidity Financing and any other Indebtedness that is effectively subordinated to the Obligations on terms no less favorable to the Lenders than the terms of the Zero Coupon Convertible Subordinated Debt.

“TPG” means TPG Partners II, L.P. and its Affiliates, provided that no such Affiliate shall be deemed a member of TPG to the extent it ceases to be Controlled by, or under common Control with, TPG Partners II, L.P.

“Tranche”, when used in reference to any Borrowing, refers to whether such Borrowing consists of Revolving Loans or Term Loans.

“Transactions” means the Restatement Transactions and the Loan Transactions.

“Transition Agreements” means agreements entered into with Motorola or its Affiliates as contemplated by the Recapitalization Agreement and as in effect on the Effective Date and as amended from time to time in accordance with Section 6.11(b).

“2003 Pension Plan Charge” means the \$21.5 million cumulative effect charge recorded as of January 1, 2003 relating to the change in accounting method for defined benefit pension plan actuarial gains or losses.

“Type”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

“Zero Coupon Convertible Subordinated Debt Documents” means the indenture under which the Zero Coupon Convertible Subordinated Debt was issued and all other instruments, agreements and other documents evidencing or governing the Zero Coupon Convertible Subordinated Debt or providing for any Guarantee or other right in respect thereof.

“Zero Coupon Convertible Subordinated Debt” means the Zero Coupon Convertible Senior Subordinated Notes due 2024 issued by Holdings in the aggregate principal amount of \$260,000,000 and the Indebtedness represented thereby (including the Note Guarantees (as defined in Zero Coupon Convertible Subordinated Debt Documents) and any replacement Notes).

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a “Revolving Loan”) or by Type (e.g., a “Eurodollar Loan”) or by Class and Type (e.g., a “Eurodollar Revolving Loan”). Borrowings also may be classified and referred to by Class (e.g., a “Revolving Borrowing”) or by Type (e.g., a “Eurodollar Borrowing”) or by Class and Type (e.g., a “Eurodollar Revolving Borrowing”).

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time, provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date of Holdings’ audited financial statements referred to in Section 3.04 in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after

such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

SECTION 1.05. Exchange Rates. (a) Not later than 1:00 p.m., New York City time, on each Calculation Date, the Administrative Agent shall (i) determine the Exchange Rate as of such Calculation Date to be used for calculating the Dollar Equivalent amount of each Alternative Currency in which an Alternative Currency Letter of Credit being issued, outstanding Alternative Currency Letter of Credit or unreimbursed LC Disbursement is denominated and (ii) give notice thereof to the Borrower. The Exchange Rates so determined shall become effective on the first Business Day immediately following the relevant Calculation Date (a "Reset Date"), shall remain effective until the next succeeding Reset Date and shall for all purposes of this Agreement (other than converting into dollars under Sections 2.05(d), (e), (h), (j) and (k) and 2.12(b) the obligations of the Borrower and the Revolving Lenders in respect of LC Disbursements that have not been reimbursed when due) be the Exchange Rates employed in converting any amounts between the applicable currencies in connection with Alternative Currency Letters of Credit.

(b) Not later than 5:00 p.m., New York City time, on each Reset Date, the Administrative Agent shall (i) determine the Actual Alternative Currency LC Exposure and Notional Alternative Currency LC Exposure on such date (after giving effect to any Alternative Currency Letters of Credit issued, renewed or terminated or requested to be issued, renewed or terminated on such date) and (ii) notify the Borrower and the Issuing Bank of the results of such determination.

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions set forth herein, each Revolving Lender agrees to make Revolving Loans to the Borrower from time to time during the Revolving Availability Period in an aggregate principal amount that will not result in such Lender's Notional Revolving Exposure exceeding such Lender's Revolving Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans. Amounts repaid or prepaid in respect of Term Loans may not be reborrowed.

SECTION 2.02. Loans and Borrowings. (a) Each Loan (other than a Swingline Loan) shall be made as part of a Borrowing consisting of Loans of the same Class and Type made by the Lenders ratably in accordance with their respective Commitments of the applicable Class. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder, provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.14, each Revolving Borrowing and Term Loan Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith, provided that all Borrowings made on the Restatement Effective Date shall be ABR Borrowings or Eurodollar Borrowings as determined in accordance with the Amendment and Restatement Agreement. Each Swingline Loan shall be an ABR Loan. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan, provided that (i) any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement and (ii) the Borrower shall not be required to make any greater payment under Section 2.17 to the applicable Lender than such Lender would have been entitled to receive if such Lender had not exercised such option.

(c) At the commencement of each Interest Period for any Eurodollar Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of \$1,000,000 and not less than \$10,000,000. At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of \$500,000 and not less than \$10,000,000, provided that an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Revolving Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e). Each Swingline Loan shall be in an amount that is an integral multiple of \$100,000 and not less than \$500,000. Borrowings of more than one Type and Class may be outstanding at the same time, provided that there shall not at any time be more than a total of six Eurodollar Borrowings outstanding with respect to any Tranche of Borrowings.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Revolving Loan or Term Loan if the Interest Period requested with respect thereto would end after the Revolving Maturity Date or Term Loan Maturity Date, respectively.

SECTION 2.03. Requests for Borrowings. To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of such Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;

(iii) subject to the proviso to the first sentence of Section 2.02(b), whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;

(iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.06.

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Revolving Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Swingline Loans. (a) Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time during the Revolving Availability Period, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of outstanding Swingline Loans exceeding \$25,000,000 or (ii) the sum of the total Notional Revolving Exposures exceeding the total Revolving Commitments, provided that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Loans.

(b) To request a Swingline Loan, the Borrower shall notify the Administrative Agent of such request by telephone (confirmed by telecopy), not later than 12:00 noon, New York City time, on the day of a proposed Swingline Loan. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Loan. The Administrative Agent will promptly advise the Swingline Lender of any such notice received from the Borrower. The Swingline Lender shall make each Swingline Loan available to the Borrower by means of a credit to the general deposit account of the Borrower with the Swingline Lender (or, in the case of a Swingline Loan made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e), by remittance to the Issuing Bank) by 3:00 p.m., New York City time, on the requested date of such Swingline Loan.

(c) The Swingline Lender may by written notice given to the Administrative Agent not later than 12:00 noon, New York City time, on any Business Day require the Revolving Lenders to acquire participations on such Business Day in all or a portion of the Swingline Loans outstanding. Such notice shall specify the aggregate amount of Swingline Loans in which Revolving Lenders will participate. Promptly upon receipt of such notice, the Administrative Agent will give notice thereof to each

Revolving Lender, specifying in such notice such Lender's Applicable Percentage of such Swingline Loan or Swingline Loans. Each Revolving Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above, to pay to the Administrative Agent, for the account of the Swingline Lender, such Lender's Applicable Percentage of such Swingline Loan or Swingline Loans. Each Revolving Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Revolving Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Revolving Lenders), and the Administrative Agent shall promptly pay to the Swingline Lender the amounts so received by it from the Revolving Lenders. The Administrative Agent shall notify the Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Loan shall be made to the Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from the Borrower (or other party on behalf of the Borrower) in respect of a Swingline Loan after receipt by the Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent; any such amounts received by the Administrative Agent shall be promptly remitted by the Administrative Agent to the Revolving Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lender, as their interests may appear. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve the Borrower of any default in the payment thereof.

SECTION 2.05. Letters of Credit.

(a) General. On the Restatement Effective Date, each Existing Letter of Credit will automatically, without any action on the part of any Person, be deemed to be a Letter of Credit issued hereunder for the account of the Borrower for all purposes of this Agreement and the other Loan Documents. In addition, subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Administrative Agent and the applicable Issuing Bank, at any time and from time to time during the Revolving Availability Period and prior to the date that is five Business Days prior to the Revolving Maturity Date. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, any Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy

(or transmit by electronic communication, if arrangements for doing so have been approved by the applicable Issuing Bank) to the applicable Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the currency in which such Letter of Credit is to be denominated (which shall be dollars or, subject to Section 2.20, an Alternative Currency) the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the applicable Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension the total Notional Revolving Exposures shall not exceed the total Revolving Commitments.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Revolving Maturity Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the applicable Issuing Bank or the Lenders, the applicable Issuing Bank hereby grants to each Revolving Lender, and each Revolving Lender hereby acquires from such Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent in dollars, for the account of such Issuing Bank, such Lender's Applicable Percentage of (i) each LC Disbursement made by such Issuing Bank in dollars and (ii) the Dollar Equivalent (using the Exchange Rates on the date that the relevant LC Disbursement is made), of each LC Disbursement made by such Issuing Bank in an Alternative Currency and, in each case, not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason (or, if such reimbursement payment was refunded in an Alternative Currency, the Dollar Equivalent thereof using the Exchange Rates on the date of such refund). Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If an Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement, in dollars or (subject to the two immediately succeeding sentences) the applicable Alternative Currency, not later than 2:00 p.m., New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 2:00 p.m., New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt, provided that, in the case of any LC Disbursement made in dollars, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 or 2.04 that such payment be financed with an ABR Revolving Borrowing or Swingline Loan in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing or Swingline Loan. If the Borrower's reimbursement of, or obligation to reimburse, any amounts in any Alternative Currency would subject the Administrative Agent, the applicable Issuing Bank or any Lender to any stamp duty, ad valorem charge or similar tax that would not be payable if such reimbursement were made or required to be made in dollars, the Borrower shall reimburse each LC Disbursement made in such Alternative Currency in dollars, in an amount equal to the Dollar Equivalent, calculated using the applicable Exchange Rate on the date such LC Disbursement is made, of such LC Disbursement. If the Borrower fails to make such payment when due, then (i) if such payment relates to an Alternative Currency Letter of Credit, automatically and with no further action required, the Borrower's obligation to reimburse the applicable LC Disbursement shall be permanently converted into an obligation to reimburse the Dollar Equivalent, calculated using the applicable Exchange Rate on the date that such LC Disbursement was made, of such LC Disbursement and (ii) the Administrative Agent shall promptly notify the applicable Issuing Bank and each Revolving Lender of the applicable LC Disbursement, the Dollar Equivalent thereof (if such LC Disbursement relates to an Alternative Currency Letter of Credit), the payment then due from the Borrower in respect thereof and, in the case of a Revolving Lender, such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Revolving Lender shall pay to the Administrative Agent in dollars its Applicable Percentage of the payment then due from the Borrower (determined as provided in clause (i) above, if such payment relates to an Alternative Currency Letter of Credit), in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Revolving Lenders), and the Administrative Agent shall promptly pay to the applicable Issuing Bank in dollars the amounts so received by it from the Revolving Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the applicable Issuing Bank or, to the extent that Revolving Lenders have made payments pursuant to this paragraph to reimburse such applicable Issuing Bank, then to such Lenders and the

applicable Issuing Bank as their interests may appear. Any payment made by a Revolving Lender pursuant to this paragraph to reimburse the applicable Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans or a Swingline Loan as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit, any application for the issuance of a Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by an Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. None of the Administrative Agent, the Lenders, any Issuing Bank or any of their Related Parties shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of any Issuing Bank, provided that the foregoing shall not be construed to excuse the applicable Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by (i) such Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof or (ii) such Issuing Bank's failure to issue a Letter of Credit in accordance with the terms of this Agreement when requested by the Borrower pursuant to Section 2.05(b). The parties hereto expressly agree that, in the absence of gross negligence or wilful misconduct on the part of an Issuing Bank (as finally determined by a court of competent jurisdiction), such Issuing Bank shall be deemed to have exercised care in each such determination and each issuance of (or failure to issue) a Letter of Credit. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented that appear on their face to be in substantial compliance with the terms of a Letter of Credit, the applicable Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. An Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The applicable Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by teletype) of such demand for payment and whether such Issuing Bank has made or will make an LC Disbursement thereunder, provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Revolving Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If an Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans, provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.13(c) shall apply, provided further that, in the case of an LC Disbursement made under an Alternative Currency Letter of Credit, the amount of interest due with respect thereto shall (i) in the case of any such LC Disbursement that is permitted to be reimbursed and is reimbursed in the relevant Alternative Currency, (A) be payable in the applicable Alternative Currency and (B) bear interest at a rate equal to the rate reasonably determined by such Issuing Bank to be the cost to such Issuing Bank of funding such LC Disbursement plus the Applicable Margin applicable to Eurodollar Loans at such time and (ii) otherwise (A) be payable in dollars, (B) accrue on the Dollar Equivalent, calculated using the Exchange Rates on the date such LC Disbursement was made, of such LC Disbursement and (C) bear interest at the rate per annum then applicable to ABR Revolving Loans, subject to Section 2.13(c). Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Revolving Lender pursuant to paragraph (e) of this Section to reimburse such Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Issuing Banks. Any Person serving as an Issuing Bank may be terminated as an Issuing Bank, and any existing Revolving Lender may become an Issuing Bank, in each case at any time by written agreement among the Borrower, the Administrative Agent (which shall not unreasonably disagree as to such termination or such addition) and the terminated Issuing Bank or additional Issuing Bank (as applicable); provided that no such termination shall be effective unless, after giving effect thereto, there will be at least one Issuing Bank remaining to issue Letters of Credit. The Administrative Agent shall notify the Lenders of any such termination or addition. At the time any such termination shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the terminated Issuing Bank pursuant to Section 2.12(b). From and after the effective date of any such addition of an Issuing Bank, the additional Issuing Bank shall have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it. After the termination of an Issuing Bank hereunder, the terminated Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such termination, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Revolving Lenders with Actual LC Exposure representing greater than 50% of the total Actual LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in dollars and in cash equal to the Actual LC Exposure as of such date plus any accrued and unpaid interest thereon, provided that (i) the portions of such amount attributable to undrawn Alternative Currency Letters of Credit or LC Disbursements in an Alternative Currency that the Borrower is not late in reimbursing shall be deposited in the applicable Alternative Currencies in the actual amounts of such undrawn Letters of Credit and LC Disbursements and (ii) upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Section 7.01 of Article VII the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable in dollars, without demand or other notice of any kind. For the purposes of this paragraph, the Actual Alternative Currency LC Exposure shall be calculated using the Exchange Rates on the date notice demanding cash collateralization is delivered to the Borrower. The Borrower also shall deposit cash collateral pursuant to this paragraph as and to the extent required by Section 2.11(b). Each such deposit pursuant to this paragraph or Section 2.11(b) shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the applicable Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the Actual LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Revolving Lenders with Actual LC Exposure representing greater than 50% of the total Actual LC Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived. If the Borrower is required to provide an amount of cash collateral hereunder pursuant to Section 2.11(b), such amount (to the extent not applied as aforesaid) shall be returned to the Borrower as and to the extent that, after giving effect to such return, the Borrower would remain in compliance with Section 2.11(b) and no Event of Default shall have occurred and be continuing.

(k) Conversion. In the event that the Loans become immediately due and payable on any date pursuant to Section 7.01, all amounts (i) that the Borrower is at the time or thereafter becomes required to reimburse or otherwise pay to the Administrative Agent in respect of LC Disbursements made under any Alternative Currency Letter of Credit (other than amounts in respect of which the Borrower has deposited cash collateral pursuant to Section 2.05(j), if such cash collateral was deposited in the applicable Alternative Currency to the extent so deposited or applied), (ii) that the Revolving Lenders are at the time or thereafter become required to pay to the Administrative Agent and the Administrative Agent is at the time or thereafter becomes required to distribute to the applicable Issuing Bank pursuant to paragraph (e) of this Section in respect of unreimbursed LC Disbursements made under any Alternative Currency Letter of Credit and (iii) of each Revolving Lender's participation in any Alternative Currency Letter of Credit under which an LC Disbursement has been made shall, automatically and with no further action required, be converted into the Dollar Equivalent, calculated using the Exchange Rates on such date (or in the case of any LC Disbursement made after such date, on the date such LC Disbursement is made), of such amounts. On and after such conversion, all amounts accruing and owed to the Administrative Agent, such Issuing Bank or any Lender in respect of the Obligations described in this paragraph shall accrue and be payable in dollars at the rates otherwise applicable hereunder.

SECTION 2.06. Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 1:00 p.m., New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders, provided that Swingline Loans shall be made as provided in Section 2.04. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City and designated by the Borrower in the applicable Borrowing Request, provided that ABR Revolving Loans and Swingline Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

(c) Nothing in this Section 2.06 shall be deemed to relieve any Lender from its obligation to fulfill its Commitments hereunder or to prejudice any rights that the Borrower may have against any Lender as a result of any default by any such Lender hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to fulfill its Commitments hereunder).

SECTION 2.07. Interest Elections. (a) Each Revolving Borrowing and Term Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing. This Section shall not apply to Swingline Borrowings, which may not be converted or continued.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.08. Termination and Reduction of Commitments. (a) Unless previously terminated, (i) the Term Commitments shall terminate at 5:00 p.m., New York City time, on the Restatement Effective Date and (ii) the Revolving Commitments shall terminate on the Revolving Maturity Date.

(b) The Borrower may at any time, without premium or penalty, terminate, or from time to time reduce, the Revolving Commitments, provided that (i) each reduction of the Revolving Commitments shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$10,000,000 and (ii) the Borrower shall not terminate or reduce the Revolving Commitments if, after giving effect to any concurrent prepayment of the Revolving Loans in accordance with Section 2.11, the sum of the Notional Revolving Exposures would exceed the total Revolving Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Revolving Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable, provided that a notice of termination of the Revolving Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Revolving Commitments shall be permanent. Each reduction of the Revolving Commitments shall be made ratably among the Lenders in accordance with their respective Revolving Commitments.

SECTION 2.09. Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Revolving Loan of such Lender on the Revolving Maturity Date, (ii) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Term Loan of such Lender as provided in Section 2.10 and (iii) to the Swingline Lender the then unpaid principal amount of each Swingline Loan on the earlier of the Revolving Maturity Date and the first date after such Swingline Loan is made that is the 15th or last day of a calendar month and is at least five Business Days after such Swingline Loan is made, provided that on each date that a Revolving Borrowing is made, the Borrower shall repay all Swingline Loans that were outstanding on the date such Borrowing was requested.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof, which accounts the Administrative Agent will make available to the Borrower upon its reasonable request.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein, provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans of any Class made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Borrower and the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.10. Amortization of Term Loans. (a) Subject to adjustment pursuant to paragraph (c) of this Section, the Borrower shall repay Term Borrowings on each March 31, June 30, September 30 and December 31 of each year prior to the Term Loan Maturity Date, commencing with March 31, 2006, and ending on the Term Loan Maturity Date, in an aggregate principal amount equal to (i) in the case of each such

installment payable prior the Term Loan Maturity Date, one-fourth of 1.00% of the aggregate principal amount of the Term Borrowings made on the Restatement Effective Date, and (ii) in the case of the installment payable on the Term Loan Maturity Date, the remaining balance of the aggregate principal amount of the Term Borrowings made on the Restatement Effective Date (determined assuming that the Term Loan Maturity Date will be December 15, 2011).

(b) To the extent not previously paid, all Term Loans shall be due and payable on the Term Loan Maturity Date.

(c) Any prepayment of a Term Borrowing shall be applied to reduce the subsequent scheduled repayments of Term Borrowings to be made pursuant to this Section ratably, provided that (i) any prepayment made pursuant to Section 2.11(c)(i) shall be applied to reduce the scheduled repayments of the Term Borrowings to be made pursuant to this Section in reverse chronological order and (ii) prepayments shall be applied to reduce the scheduled repayments of Term Borrowings in chronological order to the extent required by Section 2.11(e)(ii). Adjustments pursuant to this paragraph shall be made assuming that the Term Loan Maturity Date will be December 15, 2011.

(d) Prior to any repayment of any Term Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be repaid and shall notify the Administrative Agent by telephone (confirmed by telecopy) of such selection not later than 11:00 a.m., New York City time, three Business Days before the scheduled date of such repayment. Each repayment of a Borrowing shall be applied ratably to the Loans included in the repaid Borrowing. Repayments of Term Borrowings shall be accompanied by accrued interest on the amount repaid.

SECTION 2.11. Prepayment of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, without premium or penalty (but subject to Section 2.16), subject to the requirements of this Section.

(b) In the event and on each occasion that the sum of the Actual Revolving Exposures exceeds the total Revolving Commitments, the Borrower shall prepay Revolving Borrowings or Swingline Borrowings (or, if no such Borrowings are outstanding, deposit cash collateral in an account with the Administrative Agent pursuant to Section 2.05(j)) in an aggregate amount equal to such excess.

(c) (i) In the event and on each occasion that any Net Proceeds are received by or on behalf of Holdings, the Borrower or any Subsidiary in respect of any Prepayment Event, the Borrower shall, within ten Business Days after such Net Proceeds are received, prepay Term Borrowings in an aggregate amount equal to such Net Proceeds, provided that, in the case of any event described in clause (a) of the definition of the term "Prepayment Event" (other than the sale, transfer or other disposition of Receivables in connection with a Permitted Receivables Financing), if the Borrower shall deliver to the Administrative Agent a certificate of a Financial Officer of Holdings to the effect that Holdings, the Borrower and the Subsidiaries intend to apply the Net Proceeds

from such event (or a portion thereof specified in such certificate), within 180 days after receipt of such Net Proceeds, to acquire real property, equipment or other assets to be used in the business of the Borrower and the Subsidiaries, and certifying that no Default has occurred and is continuing, then no prepayment shall be required pursuant to this paragraph in respect of the Net Proceeds in respect of such event (or the portion of such Net Proceeds specified in such certificate, if applicable) except to the extent of any such Net Proceeds therefrom that have not been so applied by the end of such 180-day period, at which time a prepayment shall be required in an amount equal to such Net Proceeds that have not been so applied.

(ii) In the event and on each occasion that any Net Proceeds are received by or on behalf of Holdings, the Borrower or any Subsidiary in respect of (A) any payment by the China JV of any Indebtedness owing to Holdings, the Borrower or any Subsidiary from the Net Proceeds to the China JV of any Indebtedness incurred by the China JV as contemplated by clause (xi)(A) of Section 6.01(a) or (B) any Indebtedness incurred by the Borrower as contemplated by clause (xi)(B) of Section 6.01(a), then, in each such case, the Borrower shall, on the date of receipt of such Net Proceeds (in the case of any such Net Proceeds in respect of the incurrence by the Borrower of Indebtedness referred to in the foregoing clause (B)) or within 10 Business Days after such Net Proceeds are received (in the case of any such Net Proceeds in respect of Indebtedness of the China JV), prepay Term Borrowings in an aggregate amount equal to such Net Proceeds.

(d) Following the end of each fiscal year of the Borrower, the Borrower shall prepay Term Borrowings in an aggregate amount equal to 50% of Excess Cash Flow for such fiscal year. Each prepayment pursuant to this paragraph shall be made on or before the date on which financial statements are delivered pursuant to Section 5.01 with respect to the fiscal year for which Excess Cash Flow is being calculated (and in any event within 90 days after the end of such fiscal year).

(e) (i) Prior to any optional or mandatory prepayment of Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to paragraph (f) of this Section.

(ii) In the event that any optional or mandatory prepayment is to be made by the Borrower from the Net Proceeds received by or on behalf of Holdings, the Borrower or any Subsidiary in respect of the issuance of any Equity Interests, such prepayment shall be applied to reduce the scheduled repayments of Term Borrowings pursuant to the amortization schedule contained in Section 2.10 (as then in effect) in chronological order.

(f) The Borrower shall notify the Administrative Agent (and, in the case of prepayment of a Swingline Loan, the Swingline Lender) by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment (other than in the case of any prepayment pursuant to Section

2.11(h), in which case such notice must be made not later than 10:00 a.m., New York City time, on the date of prepayment), (ii) in the case of prepayment of an ABR Borrowing, not later than 10:00 a.m., New York City time, on the date of prepayment or (iii) in the case of prepayment of a Swingline Loan, not later than 12:00 noon, New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and, in the case of a mandatory prepayment, a reasonably detailed calculation of the amount of such prepayment, provided that, if a notice of optional prepayment of any Loans is given in connection with a conditional notice of termination of the Revolving Commitments as contemplated by Section 2.08, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.08. Promptly following receipt of any such notice (other than a notice relating solely to Swingline Loans), the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.02, except as necessary to apply fully the required amount of a mandatory prepayment or to prepay such Borrowing in full. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13.

(g) All voluntary prepayments of the Term Loans effected on or prior to the first anniversary of the Restatement Effective Date with the proceeds of a substantially concurrent issuance or incurrence of new term loans under this Agreement, as amended, amended and restated, supplemented, waived or otherwise modified from time to time (excluding a refinancing of all the Loans and Commitments outstanding under this Agreement in connection with another transaction not permitted by this Agreement (as determined prior to giving effect to any amendment or waiver of this Agreement being adopted in connection with such transaction)), shall be accompanied by a prepayment fee equal to 1.00% of the aggregate principal amount of Term Loans so prepaid, but only if the Applicable Rate (or similar interest rate spread) applicable to such new term loans is or, upon the satisfaction of specified conditions, could be less than the Applicable Rate applicable to the Term Loans on the Restatement Effective Date.

SECTION 2.12. Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee, which shall accrue at the rate set forth in the definition of the term "Applicable Rate" on the average daily unused amount of the Revolving Commitment of such Lender during the period from and including the Restatement Effective Date to but excluding the date on which such Revolving Commitment terminates. Accrued commitment fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Revolving Commitments terminate, commencing on the first such date to occur after the Restatement Effective Date. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of computing commitment fees, a Revolving Commitment of a Lender shall be deemed to be used to the extent of the outstanding Revolving Loans and Actual LC Exposure of such Lender (and the Swingline Exposure of such Lender shall be disregarded for such purpose).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Revolving Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate as interest on Eurodollar Revolving Loans on the average daily amount of such Lender's Actual LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Restatement Effective Date to but excluding the later of the date on which such Lender's Revolving Commitment terminates and the date on which such Lender ceases to have any Actual LC Exposure, and (ii) to each Issuing Bank a fronting fee, which shall accrue at the rate or rates per annum (but in no event more than 0.25%) separately agreed upon between the Borrower and such Issuing Bank on the average daily amount of the Actual LC Exposure attributable to Letters of Credit issued by such Issuing Bank (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Revolving Commitments and the date on which there ceases to be any Actual LC Exposure, as well as each Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the Restatement Effective Date, provided that all such fees shall be payable on the date on which the Revolving Commitments terminate and any such fees accruing after the date on which the Revolving Commitments terminate shall be payable on demand. Any other fees payable to any Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of calculating the average daily amount of the Actual LC Exposure for any period under this Section 2.12(b), the average daily amount of the Actual Alternative Currency LC Exposure for such period shall be calculated by multiplying (x) the average daily balance of each Alternative Currency Letter of Credit (expressed in the currency in which such Alternative Currency Letter of Credit is denominated) by (y) the Exchange Rate for each such Alternative Currency in effect on the last Business Day of such period or by such other reasonable method that the Administrative Agent deems appropriate.

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the applicable Issuing Bank, in the case of fees payable to it) for distribution, in the case of commitment fees and participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

SECTION 2.13. Interest. (a) The Loans comprising each ABR Borrowing (including each Swingline Loan) shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, to the fullest extent permitted by applicable law, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Revolving Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans, upon termination of the Revolving Commitments, provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Revolving Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be prima facie evidence thereof.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be prima facie evidence thereof) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist (it being understood that the Administrative Agent will use commercially reasonable efforts to give such notice as soon as practicable after such circumstances no longer exist), (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.15. Increased Costs. (a) If any Change in Law (except with respect to Taxes, which shall be governed by Section 2.17) shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate or Base CD Rate) or the Issuing Bank; or

(ii) impose on any Lender or any Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or such Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or such Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on a Lender's or an Issuing Bank's capital or on the capital of such Lender's or Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by such Issuing Bank, to a level below that which such Lender or Issuing Bank or such Lender's or Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or Issuing Bank's policies and the policies of such Lender's or Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or Issuing Bank or such Lender's or Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or Issuing Bank or its holding company, as

the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be prima facie evidence thereof. The Borrower shall pay such Lender or Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or an Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or Issuing Bank's intention to claim compensation therefor, and provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.11(f) and is revoked in accordance therewith) or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount reasonably determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate that such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be prima facie evidence thereof. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes, provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other

Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and each Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder or under any other Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or an Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or an Issuing Bank, shall be prima facie evidence thereof.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate, provided that such Foreign Lender has received written notice from the Borrower advising it of the availability of such exemption or reduction and supplying all applicable documentation.

(f) If the Administrative Agent or a Lender or an Issuing Bank has received a refund of any Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, which the Administrative Agent or such Lender or such Issuing Bank is able to identify as such, it shall pay such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this

Section 2.17 with respect to the Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses of the Administrative Agent or such Lender or such Issuing Bank and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, however, that the Borrower agrees to pay, upon the request of the Administrative Agent or such Lender or Issuing Bank, the amount paid to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender or Issuing Bank in the event the Administrative Agent or such Lender or Issuing Bank is required to repay such refund to such Governmental Authority. Nothing contained in this Section 2.17(f) shall require the Administrative Agent or any Lender or Issuing Bank to make available its tax returns (or any other information relating to its Taxes that it deems confidential) to the Borrower or any other Person.

SECTION 2.18. Payments Generally; Pro Rata Treatment; Sharing of Set-Offs. (a) The Borrower shall make each payment required to be made by it hereunder or under any other Loan Document (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to the time expressly required hereunder or under such other Loan Document for such payment (or, if no such time is expressly required, prior to 2:00 p.m., New York City time), on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York, except payments to be made directly to an Issuing Bank or Swingline Lender as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments under each Loan Document shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its

Revolving Loans, Term Loans or participations in LC Disbursements or Swingline Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Loans, Term Loans and participations in LC Disbursements and Swingline Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans, Term Loans and participations in LC Disbursements and Swingline Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans, Term Loans and participations in LC Disbursements and Swingline Loans, provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or any Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the applicable Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or such Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(c), 2.05(d) or (e), 2.06(b), 2.18(d) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.19. Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the reasonable judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Revolving Commitment is being assigned, the Issuing Bank and Swingline Lender), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements and Swingline Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply. Nothing in this Section 2.19 shall be deemed to prejudice any rights that the Borrower may have against any Lender as a result of any default by any such Lender in its obligation to fund Loans hereunder.

SECTION 2.20. Change in Law. Notwithstanding any other provision of this Agreement, if, after the Restatement Effective Date, (a) any Change in Law occurring after the Restatement Effective Date shall make it unlawful for an Issuing Bank to issue Letters of Credit denominated in an Alternative Currency or (b) there shall have occurred any change in national or international financial, political or economic conditions (including the imposition of or any change in exchange controls) or currency exchange rates that would make it impracticable for an Issuing Bank to issue Letters of Credit denominated in such Alternative Currency for the account of the Borrower, then by prompt written notice thereof to the Borrower and to the Administrative Agent (which

notice shall be withdrawn whenever such circumstances no longer exist), such Issuing Bank may declare that Letters of Credit will not thereafter be issued by it in the affected Alternative Currency or Alternative Currencies, whereupon the affected Alternative Currency or Alternative Currencies shall be deemed (for the duration of such declaration) not to constitute an Alternative Currency for purposes of the issuance of Letters of Credit by such Issuing Bank.

ARTICLE III

Representations and Warranties

Each of Holdings and the Borrower represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers. Each of Holdings, the Borrower and the Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3.02. Authorization; Enforceability. The Transactions entered into and to be entered into by each Loan Party are within such Loan Party's powers and have been duly authorized by all necessary action. This Agreement has been duly executed and delivered by each of Holdings and the Borrower and constitutes, and each other Loan Document to which any Loan Party is to be a party, when executed and delivered by such Loan Party, will constitute, a legal, valid and binding obligation of Holdings, the Borrower or such Loan Party (as the case may be), enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by or before, any Governmental Authority, except such as have been obtained or made and are in full force and effect and except filings necessary to perfect Liens created under the Loan Documents and except where the failure to obtain such consent or approval or make such registration or filing, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of Holdings, the Borrower or any of the Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default under any material indenture, agreement or other instrument binding upon Holdings, the Borrower or any of the Subsidiaries or any of their assets, or give rise to a right thereunder to require any payment to be made by Holdings, the Borrower or any of the Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of Holdings, the Borrower or any of the Subsidiaries, except Liens created under the Loan Documents.

SECTION 3.04. Financial Condition; No Material Adverse Change. (a) Holdings has heretofore furnished to the Lenders its (i) consolidated audited financial statements as of and for the two years ended December 31, 2004, reported on by PricewaterhouseCoopers LLP, independent public accountants, and (ii) consolidated unaudited financial statements as of and for each of the fiscal quarters ending April 1, 2005, July 1, 2005 and September 30, 2005. Such financial statements present fairly, in all material respects, the consolidated financial position and results of operations of Holdings, the Borrower and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP, subject in the case of clause (a)(ii) to normal year-end audit adjustments and the absence of footnotes.

(b) Except as disclosed in the financial statements referred to in paragraph (a) above or the notes thereto or in the Information Memorandum and except for the Disclosed Matters, none of Holdings, the Borrower or the Subsidiaries has, as of the date hereof, any material contingent liabilities, unusual long-term commitments or unrealized losses.

(c) Since December 31, 2004, there has been no material adverse change in the business, assets, operations, properties, financial condition or prospects of Holdings, the Borrower and its Subsidiaries, taken as a whole.

SECTION 3.05. Properties. (a) Holdings, the Borrower and each of the Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business (including its Mortgaged Properties and Restatement Mortgaged Properties), except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes and subject to Permitted Encumbrances.

(b) Holdings, the Borrower and each of the Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by Holdings, the Borrower and the Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(c) Schedule 3.05 sets forth the address of each real property that is owned or leased by the Borrower or any of the Subsidiaries as of the Restatement Effective Date.

(d) As of the Restatement Effective Date, none of Holdings, the Borrower or any of the Subsidiaries has received notice of, or has knowledge of, any material pending or contemplated condemnation proceeding affecting any Mortgaged Property or any sale or disposition thereof in lieu of condemnation. None of the Mortgaged Property or any interest therein is subject to any right of first refusal, option or other contractual right to purchase any such Mortgaged Property or interest therein.

SECTION 3.06. Litigation and Environmental Matters. (a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of Holdings or the Borrower, threatened against or affecting Holdings, the Borrower or any of the Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve any of the Loan Documents or the Transactions.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, none of Holdings, the Borrower or any of the Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the Restatement Effective Date, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements. Each of Holdings, the Borrower and the Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

SECTION 3.08. Investment and Holding Company Status. None of Holdings, the Borrower or any of the Subsidiaries is (a) an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a “holding company” as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.09. Taxes. Holdings, the Borrower and each of the Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) any Taxes that are being contested in good faith by appropriate proceedings and for which Holdings, the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would reasonably be expected to result in a

Material Adverse Effect. The present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of all such underfunded Plans by an amount that, if it were required to be fully paid, would reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any ERISA Affiliate has engaged in a transaction with respect to any employee benefit plan that would reasonably be expected to result in any material liability to the Borrower or any ERISA Affiliate pursuant to Section 4069 of ERISA.

SECTION 3.11. Disclosure. Holdings and the Borrower have disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which Holdings, the Borrower or any of the Subsidiaries is subject, and all other matters known to any of them, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. The Information Memorandum and the other reports, financial statements, certificates or other information furnished by or on behalf of any Loan Party to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or thereunder (as modified or supplemented by other information so furnished), taken as a whole, do not contain any material misstatement of fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, provided that (a) with respect to projected financial information, Holdings and the Borrower represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time and (b) with respect to information regarding the semiconductor market and other industry data, Holdings and the Borrower represent only that such information was prepared by third-party industry research firms, and although Holdings and the Borrower believe such information is reliable, Holdings and the Borrower cannot guarantee the accuracy and completeness of the information and have not independently verified such information.

SECTION 3.12. Subsidiaries. Holdings does not have any subsidiaries other than the Borrower and the Subsidiaries. Schedule 3.12 sets forth the name of, and the ownership interest of Holdings in, each Subsidiary and identifies each Subsidiary that is a Subsidiary Loan Party, in each case as of the Restatement Effective Date.

SECTION 3.13. Insurance. Schedule 3.13 sets forth a description of all insurance maintained by or on behalf of Holdings, the Borrower and the Subsidiaries as of December 31, 2005. As of the Restatement Effective Date, all premiums in respect of such insurance that are required to have been paid have been paid. Holdings and the Borrower believe that the insurance maintained by or on behalf of Holdings, the Borrower and the Subsidiaries is adequate in all material respects.

SECTION 3.14. Labor Matters. As of the Restatement Effective Date, there are no material strikes, lockouts or slowdowns against Holdings, the Borrower or any Subsidiary pending or, to the knowledge of Holdings or the Borrower, threatened. Except as could not reasonably be expected to result in a Material Adverse Effect, (a) the hours worked by and payments made to employees of Holdings, the Borrower and the

Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters and (b) the consummation of the Restatement Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which Holdings, the Borrower or any Subsidiary is bound.

SECTION 3.15. Senior Indebtedness. The Obligations constitute “Senior Indebtedness” under and as defined in the Permitted Convertible Debt Documents.

ARTICLE IV

Conditions

SECTION 4.01. [Intentionally Omitted]

SECTION 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of an Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to receipt of the request therefor in accordance herewith and to the satisfaction of the following conditions:

(a) The representations and warranties of each Loan Party set forth in the Loan Documents shall be true and correct in all material respects on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct in all material respects as to such earlier date).

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by Holdings and the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section. For purposes of the foregoing, the term “Borrowing” shall not include the continuation or conversion of Loans in which the aggregate amount of such Loans is not being increased.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, each of Holdings and the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. Holdings will furnish to the Administrative Agent and each Lender:

(a) promptly when available and in any event within 90 days after the end of each fiscal year of Holdings, its audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by PricewaterhouseCoopers LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the consolidated financial condition and results of operations of Holdings, the Borrower and the Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(b) promptly when available and in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of Holdings, its unaudited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the consolidated financial condition and results of operations of Holdings, the Borrower and the Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under paragraph (a) or (b) above, a certificate of a Financial Officer of Holdings (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Section 6.15 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of Holdings' audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) concurrently with any delivery of financial statements under paragraph (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(e) prior to the commencement of each fiscal year of Holdings, a detailed consolidated budget for such fiscal year (including a projected consolidated

balance sheet and related statements of projected operations and cash flow as of the end of and for such fiscal year and setting forth any material assumptions used for purposes of preparing such budget) and, promptly when available, any significant revisions of such budget;

(f) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by Holdings, the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or, in the event the Holdings becomes a publicly traded company, distributed by Holdings to its public stockholders generally, as the case may be;

(g) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of Holdings, the Borrower or any Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request; and

(h) promptly following a request therefor, all documentation and other information that a Lender reasonably requests in order to comply with its ongoing obligations under applicable "know your customer" and anti-money laundering rules and regulations, including the USA Patriot Act.

SECTION 5.02. Notices of Material Events. Holdings and the Borrower will furnish to the Administrative Agent and each Lender written notice of the following promptly upon Holdings' or the Borrower's obtaining knowledge thereof:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting Holdings, the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of Holdings, the Borrower and the Subsidiaries in an aggregate amount exceeding \$10,000,000; and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of Holdings setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Information Regarding Collateral. (a) Holdings will furnish to the Administrative Agent prompt written notice of any change (i) in any Loan Party's corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of any Loan Party's chief executive office, its principal place of business, any office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility), (iii) in any Loan Party's jurisdiction of formation, identity or corporate structure or (iv) in any Loan Party's Federal Taxpayer Identification Number. Holdings agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made, or will have been made within any statutory period, under the Uniform Commercial Code or otherwise that are required in order for the Administrative Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral for the benefit of the Secured Parties. Holdings also agrees promptly to notify the Administrative Agent if any material portion of the Collateral is damaged or destroyed.

(b) Each year, at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to clause (a) of Section 5.01, Holdings shall deliver to the Administrative Agent a certificate of a Financial Officer of Holdings (i) setting forth the information required pursuant to Section 2 of the Perfection Certificate or confirming that there has been no change in such information since the date of the Perfection Certificate delivered on the Restatement Effective Date or the date of the most recent certificate delivered pursuant to this Section and (ii) certifying that all Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and reregistrations, containing a description of the Collateral have been filed of record in each governmental, municipal or other appropriate office in each jurisdiction identified pursuant to clause (i) above to the extent necessary to protect and perfect the security interests under the Security Agreement for a period of not less than 18 months after the date of such certificate (except as noted therein with respect to any continuation statements to be filed within such period).

(c) All notices, reports and certificates required by this Section 5.03 may be delivered to the Administrative Agent via electronic means.

SECTION 5.04. Existence; Conduct of Business. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, contracts, licenses, permits, privileges, franchises, patents, copyrights, trademarks and trade names material to the conduct of the business of the Borrower and its Subsidiaries, taken as a whole, provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03 or any sale of assets permitted under Section 6.05.

SECTION 5.05. Payment of Obligations. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, pay its Indebtedness and other

obligations, including Tax liabilities, before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) Holdings, the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP, (c) such contest effectively suspends collection of the contested obligation and the enforcement of any Lien securing such obligation and (d) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.06. Maintenance of Properties. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, keep and maintain all property material to the conduct of the business of Holdings, the Borrower and the Subsidiaries, taken as a whole, in good working order and condition, ordinary wear and tear excepted.

SECTION 5.07. Insurance. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, maintain, with financially sound and reputable insurance companies (a) insurance in such amounts (with no greater risk retention) and against such risks as are customarily maintained by companies of established repute engaged in the same or similar businesses operating in the same or similar locations and (b) all insurance required to be maintained pursuant to the Security Documents. Holdings will furnish to the Lenders, upon request of the Administrative Agent, information in reasonable detail as to the insurance so maintained.

SECTION 5.08. Casualty and Condemnation. Holdings (a) will furnish to the Administrative Agent and the Lenders prompt written notice of any casualty or other insured damage to any material portion of any Collateral or the commencement of any action or proceeding for the taking of any Collateral or any part thereof or interest therein under power of eminent domain or by condemnation or similar proceeding and (b) will cause the Net Proceeds of any such event (whether in the form of insurance proceeds, condemnation awards or otherwise) to be applied in accordance with the applicable provisions of the Security Documents.

SECTION 5.09. Books and Records; Inspection and Audit Rights. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all material dealings and transactions in relation to its business and activities. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and at such reasonable intervals as may be reasonably requested.

SECTION 5.10. Compliance with Laws. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.11. Use of Proceeds and Letters of Credit. The proceeds of the Revolving Loans and Swingline Loans will be used only for general corporate purposes. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X. Letters of Credit will be issued only to support obligations of the Borrower or any Subsidiary incurred in the ordinary course of business. The proceeds of the Term Loans will be used only to prepay Tranche G Term Loans (under and as defined in the Existing Credit Agreement) outstanding on the Restatement Effective Date.

SECTION 5.12. Additional Subsidiaries. If any additional Subsidiary is formed or acquired after the Effective Date, Holdings will, within ten Business Days after such Subsidiary is formed or acquired, notify the Administrative Agent and the Lenders thereof and cause the Collateral and Guarantee Requirement to be satisfied with respect to such Subsidiary (if it is a Subsidiary Loan Party) and with respect to any Equity Interest in or Indebtedness of such Subsidiary owned by or on behalf of any Loan Party.

SECTION 5.13. Further Assurances. (a) Each of Holdings and the Borrower will, and will cause each Subsidiary Loan Party to, execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), that may be required under any applicable law, or which the Administrative Agent or the Required Lenders may reasonably request, to cause the Collateral and Guarantee Requirement to be and remain satisfied, all at the expense of the Loan Parties. Holdings and the Borrower also agree to provide to the Administrative Agent, from time to time upon request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Liens created or intended to be created by the Security Documents.

(b) If any material assets (including any real property or improvements thereto or any interest therein) are acquired by the Borrower or any Subsidiary Loan Party after the Effective Date (other than assets constituting Collateral under the Security Agreement or the Pledge Agreement that become subject to the Lien of the Security Agreement or the Pledge Agreement upon acquisition thereof), the Borrower will notify the Administrative Agent and the Lenders thereof, and, if requested by the Administrative Agent or the Required Lenders, the Borrower will cause such assets to be subjected to a Lien securing the Obligations and will take, and cause the Subsidiary Loan Parties to take, such actions as shall be necessary or reasonably requested by the Administrative Agent to grant and perfect such Liens, including actions described in paragraph (a) of this Section, all at the expense of the Loan Parties.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all

Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, each of Holdings and the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness; Certain Equity Securities. (a) The Borrower will not, and Holdings and the Borrower will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

(i) Indebtedness created under the Loan Documents;

(ii) Indebtedness (other than Permitted Convertible Debt) existing on the Restatement Effective Date and set forth in Schedule 6.01 and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof (other than by the amount of any fees or expenses incurred in the refinancing thereof) or result in an earlier maturity date or decreased weighted average life thereof;

(iii) Indebtedness of the Borrower to Holdings or any Subsidiary and of any Subsidiary to the Borrower, Holdings or any other Subsidiary;

(iv) Guarantees by the Borrower and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary, provided that Guarantees by the Borrower or any Subsidiary Loan Party of Indebtedness of any Subsidiary that is not a Loan Party shall be subject to Section 6.04;

(v) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations (provided that such Indebtedness is incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement) and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof, provided that the aggregate principal amount of Indebtedness permitted by this clause (v) shall not exceed \$25,000,000 at any time outstanding;

(vi) Indebtedness of the Borrower or any Subsidiary in respect of workers' compensation claims, self-insurance obligations, performance bonds, surety, appeal or similar bonds and completion guarantees provided by the Borrower and the Subsidiaries in the ordinary course of their business, provided that upon the incurrence of Indebtedness with respect to reimbursement type obligations regarding workers' compensation claims, such obligations are reimbursed within 30 days following such drawing or incurrence;

(vii) Permitted Convertible Debt;

(viii) Indebtedness of the Borrower or any Subsidiary that was Indebtedness of any other Person existing at the time such other Person was merged with

or became a Subsidiary after the Restatement Effective Date, including Indebtedness incurred in connection with, or in contemplation of, such other Person's merging with or becoming a Subsidiary after the Restatement Effective Date, and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof or result in an earlier maturity date or decreased weighted average life thereof, provided that the aggregate principal amount of Indebtedness permitted under this clause (viii) shall not exceed \$25,000,000 at any time outstanding;

(ix) other unsecured Indebtedness in an aggregate principal amount not exceeding \$50,000,000 at any time outstanding, provided that the aggregate principal amount of Indebtedness of the Subsidiaries that are not Subsidiary Loan Parties permitted by this clause (ix) shall not exceed \$25,000,000 at any time outstanding;

(x) Indebtedness of Leshan-Phoenix Semiconductor Co., Ltd. (the "China JV") in an aggregate principal amount not exceeding \$25,000,000 at any time outstanding, provided that such Indebtedness is (A) secured only by assets of the China JV and not by the assets of Holdings, the Borrower or any other Subsidiary and (B) not Guaranteed by Holdings, the Borrower or any other Subsidiary;

(xi) Indebtedness for borrowed money incurred (A) by the China JV to refinance Indebtedness owed by the China JV to Holdings, the Borrower or any Subsidiary or (B) by the Borrower, which Indebtedness is guaranteed by the China JV in consideration for the cancelation by Holdings, the Borrower or any Subsidiary, as the case may be, of Indebtedness of the China JV owing to Holdings, the Borrower or such Subsidiary, as the case may be, having an aggregate principal amount that is no greater than the aggregate principal amount of the Indebtedness so canceled; provided that (1) the aggregate principal amount of such Indebtedness shall not exceed \$100,000,000, (2) the interest rate payable by the China JV or the Borrower in respect of any such Indebtedness so incurred is less than the interest rate payable by the China JV in respect of the Indebtedness so repaid (in the case of Indebtedness incurred under clause (A) above) or canceled (in the case of Indebtedness incurred under clause (B) above), (3) such Indebtedness (x) shall not be secured by any Lien other than Liens permitted by Section 6.02(a)(x), (y) shall not be Guaranteed by any Person other than the China JV and (z) shall not (in the case of Indebtedness incurred pursuant to clause (B) above) mature, and no amortization or principal payment in respect thereof shall be made, prior to the date that is six months after December 15, 2011; and

(xii) unsecured reimbursement obligations (contingent or otherwise) in respect of letters of credit issued to support obligations of the Borrower or any Subsidiary incurred in the ordinary course of business; provided that (A) the aggregate undrawn amount of all such letters of credit and unreimbursed disbursements in respect thereof shall not at any time exceed \$10,000,000 and (B) any disbursement in respect of any such letter of credit shall be reimbursed in full within three Business Days after such disbursement is made.

(b) Holdings will not create, incur, assume or permit to exist any Indebtedness except (i) Indebtedness created under the Loan Documents, (ii) Indebtedness permitted under clause (a)(iii) and (a)(vii) of this Section 6.01 or under Section 6.01(e), and (iii) Guarantees permitted by Holdings of Indebtedness of the Borrower and the Subsidiaries permitted hereby.

(c) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, issue any preferred stock or other preferred Equity Interests, except that (i) Holdings may issue preferred stock or other preferred Equity Interests of Holdings that do not require mandatory cash dividends or redemptions and do not provide for any right on the part of the holder to require redemption, repurchase or repayment thereof, in each case prior to the date that is 91 days after December 15, 2011, and (ii) Holdings, the Borrower or any Subsidiary may issue directors' qualifying shares or shares required by applicable law to be held by a Person other than Holdings, the Borrower or any Subsidiary.

(d) Neither Holdings nor the Borrower will permit the Bermuda IP Subsidiary to create, incur, assume or permit to exist any Indebtedness (regardless of whether permitted under paragraph (a) of this Section) other than Indebtedness of the Bermuda IP Subsidiary owed to the Borrower or a Subsidiary Loan Party that is otherwise permitted by this Agreement.

(e) Notwithstanding anything contained in Section 6.01(a), (b) or (c), Holdings may issue preferred stock, or Holdings or the Borrower may incur Indebtedness, in each case pursuant to a Qualified Liquidity Financing.

SECTION 6.02. Liens. (a) The Borrower will not, and Holdings and the Borrower will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(i) Liens created under the Loan Documents;

(ii) Permitted Encumbrances;

(iii) any Lien on any property or asset of the Borrower or any Subsidiary existing on the Restatement Effective Date and set forth in Schedule 6.02, provided that (A) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and (B) such Lien shall secure only those obligations that it secures on the Restatement Effective Date and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(iv) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary after the Effective Date prior to the time such Person becomes a Subsidiary, provided that (A) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case

may be, (B) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary and (C) such Lien shall secure only those obligations that it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(v) Liens on fixed or capital assets acquired, constructed or improved by the Borrower or any Subsidiary, provided that (A) such Liens secure Indebtedness permitted by clause (v) of Section 6.01(a), (B) such security interests and the Indebtedness secured thereby are incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement, (C) the Indebtedness secured thereby does not exceed 100% of the cost of acquiring, constructing or improving such fixed or capital assets and (D) such security interests shall not apply to any other property or assets of the Borrower or any Subsidiary;

(vi) [Intentionally Omitted]

(vii) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of setoff or similar rights;

(viii) Liens in favor of a landlord on leasehold improvements in leased premises;

(ix) Liens on the assets of the China JV securing Indebtedness incurred by the China JV permitted under clause (x) of Section 6.01(a); and

(x) Liens on the assets of the China JV securing Indebtedness permitted under clause (xi) of Section 6.01(a).

(b) Holdings will not create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect thereof, except Liens created under the Pledge Agreement and Permitted Encumbrances.

SECTION 6.03. Fundamental Changes. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Person may merge with Holdings or the Borrower in a transaction in which the surviving entity is a Person organized or existing under the laws of the United States of America, any State thereof or the District of Columbia and, if such surviving entity is not Holdings or the Borrower, as the case may be, such Person expressly assumes, in writing, all the obligations of Holdings or the Borrower, as the case may be, under the Loan Documents, (ii) any Person may merge with any Subsidiary in a transaction in which the surviving entity is a Subsidiary and, if any party to such merger is a Subsidiary Loan Party, is a Subsidiary Loan Party and (iii) any Subsidiary (other than a Subsidiary Loan Party) may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in

the best interests of the Borrower and is not materially disadvantageous to the Lenders, provided that any such merger involving a Person that is not a wholly owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Sections 6.04 and 6.08.

(b) The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries (other than a Receivables Subsidiary) to, engage to any material extent in any business other than businesses of the type conducted by the Borrower and the Subsidiaries on the Effective Date and businesses reasonably related thereto.

(c) Holdings will not engage in any business or activity other than the ownership of all the outstanding shares of capital stock of the Borrower and the Joint Venture Holding Companies, incurring Indebtedness permitted hereby and activities incidental thereto. Holdings will not own or acquire any assets (other than shares of capital stock of the Borrower, shares of capital stock of the Joint Venture Holding Companies, cash and Permitted Investments) or incur any liabilities (other than liabilities under the Loan Documents, Guarantees by Holdings of obligations of the Borrower and the Subsidiaries under leases of real property, Indebtedness permitted hereby, obligations under any stock option plans or other benefit plans for management or employees of Holdings, the Borrower and the Subsidiaries, liabilities imposed by law, including tax liabilities, and other liabilities incidental to its existence and permitted business and activities).

(d) No Receivables Subsidiary will engage in any business other than the purchase and sale or other transfer of Receivables (or participation interests therein) in connection with any Permitted Receivables Financing, together with activities directly related thereto.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any Equity Interests in or evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) [Intentionally Omitted]

(b) Permitted Investments;

(c) investments existing on the Effective Date and set forth on Schedule 6.04;

(d) investments by the Borrower and the Subsidiaries that are Loan Parties in Equity Interests in their respective Subsidiaries that are Loan Parties

and

investments by Subsidiaries that are not Loan Parties in Equity Interests in their respective Subsidiaries, provided that any such Equity Interests held by a Loan Party shall be pledged pursuant to the Pledge Agreement (subject to the limitations applicable to voting stock of a Foreign Subsidiary and Equity Interests in the Foreign Joint Venture Companies referred to in the definition of the term "Collateral and Guarantee Requirement");

(e) loans or advances made by the Borrower to Holdings or any Subsidiary and made by Holdings or any Subsidiary to the Borrower or any other Subsidiary, provided that (subject to the proviso to clause (c) of the definition of "Collateral and Guarantee Requirement") any such loans and advances made by a Loan Party shall be evidenced by a promissory note pledged pursuant to the Pledge Agreement;

(f) Guarantees constituting Indebtedness permitted by Section 6.01 of Indebtedness of the Borrower or any Subsidiary Loan Party, provided that a Subsidiary shall not Guarantee any Permitted Convertible Debt unless (i) such Subsidiary also has Guaranteed the Obligations pursuant to the Guarantee Agreement, (ii) in the case of any Guarantee of Indebtedness that is subordinated to the Obligations, such Guarantee shall be subordinated to such Guarantee of the Obligations on terms no less favorable to the Lenders than the subordination provisions of the Guaranteed Indebtedness and (iii) in the case of Guarantees of the Permitted Convertible Debt, such Guarantee provides for the release and termination thereof on terms no less favorable to the Lenders than the terms applicable to the Guarantees of the Zero Coupon Convertible Subordinated Debt;

(g) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(h) Permitted Acquisitions, provided that the sum of all consideration paid or otherwise delivered in connection with Permitted Acquisitions (including the principal amount of any Indebtedness issued as deferred purchase price and the fair market value of any other non-cash consideration) plus the aggregate principal amount of all Indebtedness otherwise incurred or assumed in connection with, or resulting from, Permitted Acquisitions (including Indebtedness of any acquired Persons outstanding at the time of the applicable Permitted Acquisition) shall not exceed, on a cumulative basis subsequent to the Effective Date, \$50,000,000;

(i) any investments in or loans to any other Person received as noncash consideration for sales, transfers, leases and other dispositions permitted by Section 6.05;

(j) Guarantees by the Borrower and the Subsidiaries of leases entered into by any Subsidiary as lessee;

- (k) extensions of credit in the nature of accounts receivable or notes receivable in the ordinary course of business;
- (l) investments in payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (m) loans or advances to employees made in the ordinary course of business consistent with prudent business practice and not exceeding \$5,000,000 in the aggregate outstanding at any one time;
- (n) investments in or acquisitions of stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Borrower or any Subsidiary or in satisfaction of judgments;
- (o) investments in the form of Hedging Agreements permitted under Section 6.07;
- (p) investments by the Borrower or any Subsidiary in (i) the capital stock of a Receivables Subsidiary and (ii) other interests in a Receivables Subsidiary, in each case to the extent determined by the Borrower in its judgment to be reasonably necessary in connection with or required by the terms of the Permitted Receivables Financing;
- (q) investments, loans, advances, guarantees and acquisitions resulting from a foreclosure by Holdings, the Borrower or any Subsidiary with respect to any secured investment or other transfer of title with respect to any secured investment in default;
- (r) investments, loans, advances, guarantees and acquisitions the consideration for which consists solely of shares of common stock of Holdings;
- (s) the purchase by the Borrower or a Subsidiary of all or a portion of the minority interest in the China JV for a purchase price not exceeding the maximum purchase price therefor separately agreed between the Borrower and the Administrative Agent;
- (t) other investments in an aggregate amount not to exceed \$100,000,000 at any time outstanding;
- (u) [Intentionally Omitted]
- (v) investments by the Borrower in Equity Interests issued by the Czech Subsidiary pursuant to conversions of Indebtedness of the Czech Subsidiary permitted by Section 6.08(b)(viii); and
- (w) the licensing from other Persons by the Borrower and the Subsidiaries of intellectual property in accordance with normal industry practice; provided that if such licensing involves the effective acquisition of any business of another Person it must be otherwise permitted by this Section 6.04.

SECTION 6.05. Asset Sales. The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries to, sell, transfer, lease or otherwise dispose of any asset, including any Equity Interest owned by it, nor will the Borrower permit any of the Subsidiaries to issue any additional Equity Interest in such Subsidiary, except:

(a) (i) sales of inventory, used or surplus equipment and Permitted Investments in the ordinary course of business, (ii) non-cash sales or exchanges of surplus or fully-depreciated equipment in an aggregate amount (based on fair market value) not to exceed \$2,000,000 during any fiscal year, and (iii) the periodic clearance of aged inventory;

(b) sales, transfers and dispositions to the Borrower or a Subsidiary, provided that any such sales, transfers or dispositions involving a Subsidiary that is not a Loan Party shall be made in compliance with Section 6.09;

(c) sales, transfers and other dispositions of assets (other than Equity Interests in a Subsidiary) that are not permitted by any other clause of this Section, provided that the aggregate fair market value of all assets sold, transferred or otherwise disposed of in reliance upon this clause (c) shall not exceed \$50,000,000 during any fiscal year of the Borrower;

(d) sales, transfers and other dispositions of assets listed on Schedule 6.05 hereto;

(e) sale and leaseback transactions permitted by Section 6.06;

(f) sales of property, plant and equipment located at either of the manufacturing sites listed in Schedule 6.05(f);

(g) conversions of Indebtedness and issuances of Equity Interests permitted by Section 6.08(b)(viii); and

(h) the licensing by the Borrower and the Subsidiaries of intellectual property to other Persons, in accordance with normal industry practice; provided that if such licensing involves the effective transfer or conveyance of any business conducted by the Borrower or any Subsidiary utilizing such intellectual property it must be otherwise permitted by this Section 6.05;

provided that (i) all sales, transfers, leases and other dispositions permitted hereby shall be made for fair value (other than those permitted by clause (b) above) and for consideration of at least 80% cash or cash equivalents (other than those permitted by clauses (a)(ii), (b), (d) and (g) above) and (ii) the fair value of all consideration (other than cash and cash equivalents) received in respect of dispositions permitted by clause (d) above does not exceed \$15,000,000.

SECTION 6.06. Sale and Leaseback Transactions. The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries to, enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred, except for (a) any such sale of any fixed or capital assets that is made for cash consideration in an amount not less than the cost of such fixed or capital asset and is consummated within 180 days after the Borrower or such Subsidiary acquires or completes the construction of such fixed or capital asset and (b) any such sales and leasebacks made after the Restatement Effective Date of real or personal property with an aggregate fair value not to exceed \$15,000,000 during the term of this Agreement.

SECTION 6.07. Hedging Agreements. The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries to, enter into any Hedging Agreement, except (a) Hedging Agreements entered into to hedge or mitigate risks to which the Borrower or any Subsidiary has actual exposure (other than those in respect of Equity Interests of the Borrower or any of its Subsidiaries), and (b) Hedging Agreements entered into in order to effectively cap, collar or exchange interest rates (from fixed to floating rates, from one floating rate to another floating rate or otherwise) with respect to any interest-bearing liability or investment of the Borrower or any Subsidiary.

SECTION 6.08. Restricted Payments; Certain Payments of Indebtedness. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except that (i) Holdings may declare and pay dividends with respect to its capital stock payable solely in additional shares of its capital stock, (ii) Subsidiaries may declare and pay dividends ratably with respect to their capital stock, (iii) Holdings may make Restricted Payments, not exceeding \$2,000,000 during any fiscal year, pursuant to and in accordance with stock option plans or other benefit plans for directors, management or employees of Holdings, the Borrower and the Subsidiaries, including the redemption or purchase of capital stock of Holdings held by former directors, management or employees of Holdings, the Borrower or any Subsidiary following termination of their employment, (iv) the Borrower may pay dividends to Holdings at such times and in such amounts, not exceeding \$2,000,000 during any fiscal year, as shall be necessary to permit Holdings to discharge its permitted liabilities, (v) [Intentionally Omitted] and (vi) Restricted Payments may be made in the form of capital stock issued by Holdings or with the Net Proceeds of capital stock issued by Holdings, provided that any such Restricted Payment made with the Net Proceeds of capital stock issued by Holdings shall be made within 180 days after receipt of such Net Proceeds and only if no Default has occurred and is continuing at the time.

(b) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Indebtedness, or any payment or other distribution (whether in cash,

securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Indebtedness, except:

(i) payments of or in respect of Indebtedness created under the Loan Documents;

(ii) payment of regularly scheduled interest and principal payments as and when due in respect of any Indebtedness;

(iii) refinancings of Indebtedness to the extent permitted by Section 6.01;

(iv) payment of secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(v) payments of or in respect of, or distributions of capital stock of Holdings in respect of, Indebtedness (including pursuant to any conversion or redemption thereof or exchange therefor or purchase thereof) for consideration in the form of capital stock issued by Holdings or with the Net Proceeds of capital stock issued by Holdings, provided that any such payment made with the Net Proceeds of capital stock issued by Holdings shall be made within 180 days after receipt of such Net Proceeds and only if no Default has occurred and is continuing;

(vi) payments in respect of any Permitted Receivables Facility;

(vii) payments by the China JV on account of the purchase, redemption or retirement of Indebtedness of the China JV from cash proceeds generated from operations of the China JV;

(viii) the conversion of up to \$18,500,000 of Indebtedness of the Czech Subsidiary owed to the Borrower as of the Restatement Effective Date into Equity Interests in such Czech Subsidiary issued to the Borrower; and

(ix) any refinancing of Indebtedness (including pursuant to any exchange therefor or purchase thereof and payment of fees and expenses incurred in connection therewith) for consideration in the form of Permitted Convertible Debt or Net Proceeds from the issuance of Permitted Convertible Debt, provided that any such refinancing for consideration in the form of Net Proceeds of Permitted Convertible Debt shall be made within 180 days after receipt of such Net Proceeds.

SECTION 6.09. Transactions with Affiliates. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) transactions that are at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) transactions between or among Holdings, the Borrower and the Subsidiary Loan Parties not involving any other Affiliate, (c) to pay management,

consulting and advisory fees to TPG or its Affiliates pursuant to any financial advisory, financing, underwriting or placement agreement or in respect of other investment banking activities, including in connection with acquisitions or divestitures, in an aggregate amount not to exceed \$2,000,000 in any fiscal year, (d) payments of fees and expenses to TPG and its Affiliates in connection with the Transactions, (e) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by the board of directors of Holdings, (f) the grant of stock options or similar rights to officers, employees, consultants and directors of Holdings pursuant to plans approved by the board of directors of Holdings and the payment of amounts or the issuance of securities pursuant thereto, (g) loans or advances to employees in the ordinary course of business consistent with prudent business practice, but in any event not to exceed \$5,000,000 in the aggregate outstanding at any one time, (h) the Transition Agreements, (i) any Restricted Payment permitted by Section 6.08 and (j) the transactions permitted under Section 6.08(b)(viii).

SECTION 6.10. Restrictive Agreements. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of Holdings, the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by any Loan Document or any Permitted Convertible Debt Document, (ii) the foregoing shall not apply to restrictions and conditions existing on the Effective Date identified on Schedule 6.10 (but shall apply to any extension or renewal of, or any amendment or modification if it expands the scope of, any such restriction or condition), (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness, (v) clause (a) of the foregoing shall not apply to customary provisions in leases restricting the assignment thereof and (vi) the foregoing shall not apply to restrictions or conditions imposed on a Receivables Subsidiary in connection with a Permitted Receivables Financing.

SECTION 6.11. Amendment of Material Documents. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, amend, modify or waive any of its rights under (i) its certificate of incorporation, by-laws or other organizational documents (including the SMP JV Agreement and the Leshan JV Agreement), or (ii) any Permitted Convertible Debt Document; provided that (A) any certificate of incorporation, by-law or other organizational documents described in clause (i) of this paragraph may be amended or modified (and any rights thereunder may be

waived) in any respect that is not materially adverse to the interests of the Lenders and (B) any Permitted Convertible Debt Document may be amended or modified (and any rights thereunder may be waived) if (i) after giving effect thereto, the applicable Indebtedness continues to qualify as Permitted Convertible Debt or (ii) in the reasonable judgment of the Administrative Agent, such amendment, modification or waiver is not adverse in any material respect to the interests of the Lenders.

(b) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to terminate any Transition Agreement, in each case to the extent that such amendment, modification, waiver or termination would be adverse to the Lenders.

(c) Holdings and the Borrower will not, and will not permit any Subsidiary to, amend, modify or waive any of its rights under any Permitted Receivables Financing to the extent that such amendment, modification or waiver would be materially adverse to the Lenders.

(d) The Borrower will not amend, modify or waive any of its rights under the IP License to the extent that such amendment, modification or waiver would (i) adversely affect the subordination of the rights of the Bermuda IP Subsidiary under the IP License to the Liens granted under the Security Agreement on the intellectual property covered by the IP License or (ii) otherwise be adverse to the Lenders in any material respect.

SECTION 6.12. [Intentionally Omitted]

SECTION 6.13. [Intentionally Omitted]

SECTION 6.14. Capital Expenditures. (a) The Borrower and Subsidiaries shall not incur or make any Capital Expenditures during any period set forth below (a "Measurement Period") in an amount exceeding the amount set forth opposite such period:

<u>Period</u>	<u>Maximum Capital Expenditures</u>
April 1, 2003 to December 31, 2003	\$ 87,500,000
Each fiscal year thereafter	\$ 100,000,000

(b) Notwithstanding the foregoing, the \$100,000,000 permitted amount in respect of any fiscal year ending after December 31, 2003 shall be increased by an amount equal to 50% of the amount (if any) by which Consolidated EBITDA for the immediately preceding fiscal year exceeds \$200,000,000.

(c) In addition, the amount of Capital Expenditures permitted to be made by the Borrower and Subsidiaries in respect of any fiscal year after December 31, 2003 shall be increased by (i) the unused amount (if any) of Capital Expenditures that were permitted to be made during the immediately preceding Measurement Period pursuant to Section 6.14(a) minus (ii) an amount equal to the unused permitted Capital Expenditures

carried forward to such immediately preceding Measurement Period pursuant to this paragraph (c); provided that the increase in any fiscal year pursuant to this clause (c) shall not exceed 50% of the permitted Capital Expenditures amount for the immediately preceding Measurement Period pursuant to paragraphs (a) and (b).

(d) In addition, the amount of Capital Expenditures permitted to be made by the Borrower and the Subsidiaries during the fiscal year ending December 31, 2006, may exceed the amount otherwise permitted under this Section by up to \$40,000,000, but any unused amount of such excess shall be disregarded for purposes of determining permitted Capital Expenditures in subsequent fiscal years pursuant to paragraph (c) above.

SECTION 6.15. Minimum Consolidated EBITDA. The Borrower will not permit Consolidated EBITDA for any period of four consecutive fiscal quarters ending on any date after the Restatement Effective Date to be less than \$140,000,000.

ARTICLE VII

Events of Default

SECTION 7.01. Events of Default. If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five days;

(c) any representation or warranty made or deemed made by or on behalf of Holdings, the Borrower or any Subsidiary in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or in any certificate or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) Holdings or the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.04 (with respect to the existence of Holdings or the Borrower) or 5.11 or in Article VI;

(e) any Loan Party shall fail to observe or perform any covenant, condition or agreement contained in any Loan Document (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) Holdings, the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable after giving effect to any applicable grace period with respect thereto;

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity, provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of Holdings, the Borrower or, subject to Section 7.02, any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Holdings, the Borrower or, subject to Section 7.02, any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) Holdings, the Borrower or, subject to Section 7.02, any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Holdings, the Borrower or, subject to Section 7.02, any Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) Holdings, the Borrower or, subject to Section 7.02, any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of \$10,000,000 (net of amounts covered by insurance as to which the insurer has admitted liability in writing) shall be rendered against Holdings, the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of Holdings, the Borrower or any Subsidiary to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(m) any Lien purported to be created under any Security Document shall cease to be, or shall be asserted by any Loan Party not to be, a valid and perfected Lien on Collateral having, in the aggregate, a value in excess of \$5,000,000, with the priority required by the applicable Security Document, except (i) as a result of the sale or other disposition of the applicable Collateral in a transaction permitted under the Loan Documents, (ii) any action taken by the Collateral Agent to release any such Lien in compliance with the provisions of this Agreement or any other Loan Document or (iii) as a result of the Collateral Agent's failure to maintain possession of any stock certificates, promissory notes or other instruments delivered to it under the Pledge Agreement;

(n) any default or other event shall have occurred under any document governing any Permitted Receivables Financing if the effect of such default or other event is to cause the termination of such Permitted Receivables Financing; or

(o) a Change in Control shall occur;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

SECTION 7.02. Exclusion of Immaterial Subsidiaries. Solely for the purposes of determining whether a Default has occurred under clause (h), (i) or (j) of Section 7.01, any reference in any such clause to any "Subsidiary" shall be deemed not to include any Subsidiary affected by any event or circumstance referred to in any such clause that did not, as of the last day of the fiscal quarter of the Borrower most recently ended, have assets with a value in excess of 5.0% of the total consolidated assets of the Borrower and the Subsidiaries as of such date, provided that if it is necessary to exclude more than one Subsidiary from clause (h), (i) or (j) of Section 7.01 pursuant to this Section in order to avoid a Default thereunder, all excluded Subsidiaries shall be considered to be a single consolidated Subsidiary for purposes of determining whether the condition specified above is satisfied.

ARTICLE VIII

The Administrative Agent

Each of the Lenders and the Issuing Banks hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with Holdings, the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to Holdings, the Borrower or any of the Subsidiaries that is communicated to or obtained by the Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as

shall be necessary under the circumstances as provided in Section 9.02(b)) or in the absence of its own gross negligence or wilful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by Holdings, the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any of and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of each Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Banks and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Banks, appoint a successor Administrative Agent that shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to

its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

- (a) if to Holdings or the Borrower, to it at 5005 East McDowell Road, Phoenix, Arizona 85018, Attention of President (Telecopy No. 602-244-4830);
- (b) if to the Administrative Agent, to JPMorgan Chase Bank, N.A., Loan and Agency Services Group, 1111 Fannin, 10th Floor, Houston, TX 77002, Attention of Maryann T. Bui (Telecopy No. (713) 750-2358), with a copy to JPMorgan Chase Bank, N.A., 270 Park Avenue, New York, New York 10017, Attention of David Mallett (Telecopy No. (212) 270-5127);
- (c) if to an Issuing Bank, to its address (or facsimile number) set forth in its Administrative Questionnaire (unless such Issuing Bank has specified another address or facsimile number by notice to the Borrower and the Administrative Agent);
- (d) if to the Swingline Lender, to JPMorgan Chase Bank, N.A., Loan and Agency Services Group, 1111 Fannin, 10th Floor, Houston, TX 77002, Attention of Maryann T. Bui (Telecopy No. (713) 750-2358); and
- (e) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 9.02. Waivers; Amendments. (a) No failure or delay by the Administrative Agent, any Issuing Bank or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Banks and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or any Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any other Loan Document nor any provision hereof or thereof may be waived, amended or modified except, in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by Holdings, the Borrower and the Required Lenders or, in the case of any other Loan Document, pursuant to an agreement or agreements in writing entered into by the Administrative Agent and the Loan Party or Loan Parties that are parties thereto, in each case with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the maturity of any Loan, or the date of any scheduled payment of the principal amount of any Term Loan under Section 2.10, or the required date of reimbursement of any LC Disbursement, or any date for the payment of any interest or fees payable hereunder, or reduce the amount of, waive or excuse any such scheduled payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.18(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (v) change any of the provisions of this Section or the percentage set forth in the definition of the term "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders (or Lenders of any Class) required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Lender (or each Lender of such Class, as the case may be), (vi) release Holdings or any Subsidiary Loan Party from its Guarantee under the Guarantee Agreement (except as expressly provided in the Guarantee Agreement), or limit its liability in respect of such

Guarantee, without the written consent of each Lender, (vii) except in strict accordance with the express provisions of the Security Documents, release all or any substantial part of the Collateral from the Liens of the Security Documents, without the written consent of each Lender, (viii) change any provisions of any Loan Document in a manner that by its terms adversely affects the rights in respect of payments due to Lenders holding Loans of any Class differently than those holding Loans of any other Class, without the written consent of Lenders holding a majority in interest of the outstanding Loans and unused Commitments of each affected Class or (ix) change the definition of "Interest Period" to include periods longer than six months, without the written consent of each Lender affected thereby; provided further that (A) no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, any Issuing Bank or the Swingline Lender without the prior written consent of the Administrative Agent, such Issuing Bank or the Swingline Lender, as the case may be, and (B) any waiver, amendment or modification of this Agreement that by its terms affects the rights or duties under this Agreement of the Revolving Lenders (but not the Term Lenders) or the Term Lenders (but not the Revolving Lenders) may be effected by an agreement or agreements in writing entered into by Holdings, the Borrower and requisite percentage in interest of the affected Class of Lenders that would be required to consent thereto under this Section if such Class of Lenders were the only Class of Lenders hereunder at the time. Notwithstanding the foregoing, any provision of this Agreement may be amended by an agreement in writing entered into by Holdings, the Borrower, the Required Lenders and the Administrative Agent (and, if their rights or obligations are affected thereby, the Issuing Banks and the Swingline Lender) if (i) by the terms of such agreement the Commitment of each Lender not consenting to the amendment provided for therein shall terminate upon the effectiveness of such amendment and (ii) at the time such amendment becomes effective, each Lender not consenting thereto receives payment in full of the principal of and interest accrued on each Loan made by it and all other amounts owing to it or accrued for its account under this Agreement.

SECTION 9.03. Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of one counsel in each applicable jurisdiction for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by any Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, any Issuing Bank or any Lender, including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, any Issuing Bank or any Lender, in connection with the enforcement or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent, each Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an “Indemnitee”) against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by an Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence, Release or threatened Release of Hazardous Materials on or from any Mortgaged Property or Restatement Mortgaged Property or any other property currently or formerly owned or operated by Holdings, the Borrower or any of the Subsidiaries, or any Environmental Liability related in any way to Holdings, the Borrower or any of the Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto, provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses resulted from the gross negligence or wilful misconduct of such Indemnitee or any Related Person of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent, any Issuing Bank or the Swingline Lender under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the applicable Issuing Bank or the Swingline Lender, as the case may be, such Lender’s pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the applicable Issuing Bank or the Swingline Lender in its capacity as such. For purposes hereof, a Lender’s “pro rata share” shall be determined based upon its share of the sum of the total Actual Revolving Exposures, outstanding Term Loans and unused Commitments at the time.

(d) To the extent permitted by applicable law, neither Holdings nor the Borrower shall assert, and each hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly after written demand therefor.

(f) Neither Motorola nor any director, officer, employee, stockholder or member, as such, of any Loan Party or Motorola shall have any liability for the Obligations or for any claim based on, in respect of or by reason of the Obligations or their creation; provided that the foregoing shall not be construed to relieve any Loan Party of its Obligations under any Loan Document.

SECTION 9.04. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of any Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of any Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Banks and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b)(i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default under clause (a), (b), (g), (h), (i), (j), (n) or (o) of Section 7.01 has occurred and is continuing, any other assignee;

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment of all or any portion of a Term Loan to a Lender, an Affiliate of a Lender or an Approved Fund; and

(C) the Issuing Banks, provided that no consent of the Issuing Banks shall be required for an assignment of all or any portion of a Term Loan.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans of any Class, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such

assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 or, in the case of a Term Loan, \$1,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if an Event of Default under clause (a), (b), (g), (h), (i), (j), (n) or (o) of Section 7.01 has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, provided that this clause shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of Commitments or Loans;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500; and

(D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

For the purpose of this Section 9.04(b), the term "Approved Fund" has the following meaning:

"Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(v) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement (provided that any liability of the Borrower to such assignee under Section 2.15, 2.16 or 2.17 shall be limited to the amount, if any, that would have been payable by the Borrower in the absence of such assignment), and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption

delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and Holdings, the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c)(i) Any Lender may, without the consent of the Borrower, the Administrative Agent, the Issuing Bank or the Swingline Lender, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) Holdings, the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Loan Parties in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, any Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent and the Issuing Banks constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. This Agreement shall become effective as provided in the Amendment and Restatement Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Set-Off. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower then existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement. The rights of each Lender under this Section are in addition to other rights and remedies (including any other rights of set-off) that such Lender may have.

SECTION 9.09. GOVERNING LAW; JURISDICTION; CONSENT TO SERVICE OF PROCESS. (a) THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

(b) Each of Holdings and the Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against Holdings, the Borrower or its properties in the courts of any jurisdiction.

(c) Each of Holdings and the Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Banks and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, or to any direct or indirect contractual counterparties in swap agreements or such contractual counterparties' professional advisors, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent, any Issuing Bank or any Lender on a nonconfidential basis from a source other than Holdings or the Borrower. For the purposes of this Section, the term "Information" means all information received from Holdings or the Borrower relating to Holdings or the Borrower or its business, other than any such information that is available to the Administrative Agent, any Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by Holdings or the Borrower. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts that are treated as interest on such Loan under applicable law (collectively the “Charges”), shall exceed the maximum lawful rate (the “Maximum Rate”) that may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.14. Existing Credit Agreement; Effectiveness of Amendment and Restatement. Until this Agreement becomes effective in accordance with the terms of the Amendment and Restatement Agreement, the Existing Credit Agreement shall remain in full force and effect and shall not be affected hereby. After the Restatement Effective Date, all obligations of the Borrower under the Existing Credit Agreement shall become obligations of the Borrower hereunder, secured by the Security Documents, and the provisions of the Existing Credit Agreement shall be superseded by the provisions hereof.

SECTION 9.15. [Intentionally Omitted]

SECTION 9.16. [Intentionally Omitted]

SECTION 9.17. Conversion of Currencies. (a) If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum owing hereunder in one currency into another currency, each party hereto agrees, to the fullest extent that it may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures in the relevant jurisdiction the first currency could be purchased with such other currency on the Business Day immediately preceding the day on which final judgment is given.

(b) The obligations of the Borrower in respect of any sum due to any party hereto or any holder of the obligations owing hereunder (the “Applicable Creditor”) shall, notwithstanding any judgment in a currency (the “Judgment Currency”) other than the currency in which such sum is stated to be due hereunder (the “Agreement Currency”), be discharged only to the extent that, on the Business Day following receipt by the Applicable Creditor of any sum adjudged to be so due in the Judgment Currency, the Applicable Creditor may in accordance with normal banking procedures in the relevant jurisdiction purchase the Agreement Currency with the Judgment Currency; if the amount of the Agreement Currency so purchased is less than the sum originally due to the Applicable Creditor in the Agreement Currency, the Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Applicable Creditor against such loss. The obligations of the Borrower contained in this Section 9.17 shall survive the termination of this Agreement and the payment of all other amounts owing hereunder.

REAFFIRMATION AGREEMENT, dated as of February 6, 2006, among ON SEMICONDUCTOR CORPORATION (“Holdings”), SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC (the “Borrower”), each subsidiary of Holdings listed on the signature pages hereof (collectively, the “Subsidiary Loan Parties” and, together with Holdings and the Borrower, the “Reaffirming Parties”) and JPMORGAN CHASE BANK, N.A., as Administrative Agent, an Issuing Bank and Collateral Agent (in such capacities, “JPMCB”) for the benefit of the Lenders (such term and each other capitalized term used but not defined herein having the meaning assigned to such term in the Amended and Restated Credit Agreement referred to below).

WHEREAS Holdings, the Borrower, the lenders party thereto and the Administrative Agent have entered into an Amendment and Restatement Agreement dated as of February 6, 2006 (the “Amendment and Restatement Agreement”), which amends and restates the Amended and Restated Credit Agreement dated as of August 4, 1999, as amended and restated as of December 23, 2004 (as amended and restated after giving effect to the Amendment and Restatement Agreement, the “Amended and Restated Credit Agreement”);

WHEREAS each Reaffirming Party expects to realize, or has realized, substantial direct and indirect benefits as a result of Holdings and the Borrower entering into the Amendment and Restatement Agreement and as a result of the Amendment and Restatement Agreement becoming effective; and

WHEREAS the execution and delivery of this Agreement is a condition precedent to the effectiveness of the Amendment and Restatement Agreement.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

Reaffirmation/Amendment and Restatement

SECTION 1.01. Reaffirmation. (a) Each of the Reaffirming Parties hereby consents to the Amendment and Restatement Agreement and hereby confirms its respective guarantees, pledges and grants of security interests, as applicable, under each of the Loan Documents (including, for the avoidance of doubt, the Patent Security

Agreement, dated as of January 18, 2005, among Holdings, the Borrower, the Subsidiary Loan Parties, and JPMCB in its capacity as the Collateral Agent), as amended and restated (if applicable) in accordance with the Amendment and Restatement Agreement, to which it is a party, and agrees that notwithstanding the effectiveness of the Amendment and Restatement Agreement, such guarantees, pledges and grants of security interests shall continue to be in full force and effect and shall accrue to the benefit of the Lenders and the other Secured Parties under the Amended and Restated Credit Agreement.

(b) Each of the Reaffirming Parties hereby confirms and agrees that the Term Loans and the Revolving Loans constitute Obligations under each of the Loan Documents.

SECTION 1.02. Amendment and Restatement. On and after the effectiveness of the Amendment and Restatement Agreement, (i) each reference in each Loan Document to the "Credit Agreement", "thereunder", "thereof" or words of like import shall mean and be a reference to the Amended and Restated Credit Agreement (as such agreement may be amended, modified or supplemented and in effect from time to time) and (ii) the definition of any term defined in any Loan Document by reference to the terms defined in the "Credit Agreement" shall be amended to be defined by reference to the defined term in the Amended and Restated Credit Agreement, as the same may be amended, modified or supplemented and in effect from time to time.

ARTICLE II

Representations and Warranties

Each Reaffirming Party hereby represents and warrants, which representations and warranties shall survive execution and delivery of this Agreement, as follows:

SECTION 2.01. Organization. Such Reaffirming Party is duly organized and validly existing in good standing under the laws of the jurisdiction of its formation.

SECTION 2.02. Authority; Enforceability. Such Reaffirming Party has the power and authority to execute, deliver and carry out the terms and provisions of this Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Agreement. Such Reaffirming Party has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 2.03. Loan Documents. The representations and warranties of such Reaffirming Party contained in each Loan Document are true and correct in all material respects on and as of the Restatement Effective Date with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

ARTICLE III

Miscellaneous

SECTION 3.01. Indemnity. Each Reaffirming Party shall indemnify JPMCB, each Lender and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any other agreement or instrument contemplated hereby, the performance by the parties hereto and thereto of their respective obligations hereunder and thereunder or the consummation of the transactions contemplated hereby and thereby, or (ii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses resulted from the gross negligence or wilful misconduct of such Indemnitee or any Affiliate of such Indemnitee (or any officer, director, employee, advisor or agent of such Indemnitee or any such Indemnitee's Affiliates).

SECTION 3.02. Set-Off, etc. In addition to, and without limitation of, any rights of JPMCB and the Lenders under applicable law, if an Event of Default shall have occurred and be continuing, JPMCB, each Lender and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of any Reaffirming Party against any of and all the obligations of any Reaffirming Party then existing under this Agreement or any other Loan Document held by JPMCB or such Lender, irrespective of whether or not JPMCB or such Lender shall have made any demand under this Agreement or such other Loan Document. The rights of JPMCB and each Lender under this Section 3.02 are in addition to other rights and remedies (including other rights of set-off) which JPMCB or such Lender may have.

SECTION 3.03. Notices. All notices and other communications hereunder shall be made at the addresses, in the manner and with the effect provided in Article IX of the Amended and Restated Credit Agreement; provided that, for this purpose, the address of each Reaffirming Party shall be the one specified for the Borrower under the Amended and Restated Credit Agreement.

SECTION 3.04. Limitation of Liability. To the extent permitted by applicable law, each Reaffirming Party shall not assert, and each hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the transactions contemplated hereby, any Loan or Letter of Credit or the use of the proceeds thereof.

SECTION 3.05. CHOICE OF LAW; CONSENT TO JURISDICTION. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. EACH REAFFIRMING PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE OR, TO THE EXTENT PERMITTED BY LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT JPMCB OR ANY LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST ANY REAFFIRMING PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

SECTION 3.06. Loan Document. This Agreement is a Loan Document executed pursuant to the Amended and Restated Credit Agreement and shall (unless otherwise expressly indicated herein) be construed, administered and applied in accordance with the terms and provisions thereof.

SECTION 3.07. Section Captions. Section captions used in this Agreement are for convenience of reference only and shall not affect the construction of this Agreement.

SECTION 3.08. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting

the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 3.09. WAIVER OF JURY TRIAL. EACH OF THE REAFFIRMING PARTIES AND JPMCB BY ITS ACCEPTANCE HEREOF HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 3.10. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

SECTION 3.11. Amendment. This Agreement may be waived, modified or amended only by a written agreement executed by each of the parties hereto.

SECTION 3.12. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original but all of which shall together constitute one and the same agreement. Delivery of an executed counterpart of a signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 3.13. No Novation. After the Restatement Effective Date, all the obligations of the Borrower under the Existing Credit Agreement shall become obligations under the Amended and Restated Credit Agreement, secured by the Loan Documents as reaffirmed hereby. Neither this Agreement nor the execution, delivery or effectiveness of the Amendment and Restatement Agreement shall extinguish the obligations for the payment of money outstanding under the Amendment and Restatement Agreement or the Amended and Restated Credit Agreement or discharge or release the Lien or priority of any Security Document or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Existing Credit Agreement or the Amended and Restated Credit Agreement or instruments securing the same, which shall remain in full force and effect, except to any extent modified hereby or by instruments executed

concurrently herewith. Nothing express or implied in this Agreement, the Amendment and Restatement Agreement, the Amended and Restated Credit Agreement or in any other document contemplated hereby or thereby shall be construed as a release or other discharge of Holdings, the Borrower or any Subsidiary Loan Party under any Loan Document from any of its obligations and liabilities as “Holdings”, a “Borrower”, a “Subsidiary Loan Party”, a “Guarantor”, a “Grantor”, a “Pledgor”, a “party to the Indemnity, Subrogation and Contribution Agreement” or a “party to the Collateral Assignment” under the Existing Credit Agreement or the Loan Documents. Each of the Existing Credit Agreement and the Loan Documents shall remain in full force and effect, until and except to any extent modified hereby or in connection herewith and therewith.

IN WITNESS WHEREOF, each Reaffirming Party and JPMCB have caused this Agreement to be duly executed and delivered as of the date first above written.

ON SEMICONDUCTOR CORPORATION,

by /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC,

by /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SCG INTERNATIONAL DEVELOPMENT LLC,

by /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SCG (MALAYSIA SMP) HOLDING CORPORATION,

by /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SCG (CZECH) HOLDING CORPORATION,

by /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SCG (CHINA) HOLDING
CORPORATION,

by /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SEMICONDUCTOR COMPONENTS INDUSTRIES PUERTO
RICO, INC.,

by /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SEMICONDUCTOR COMPONENTS INDUSTRIES OF
RHODE ISLAND, INC.,

by /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SEMICONDUCTOR COMPONENTS INDUSTRIES
INTERNATIONAL OF RHODE ISLAND, INC.,

by /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

JPMORGAN CHASE BANK, N.A., as Administrative Agent,
Issuing Bank and Collateral Agent,

by /s/ DAVID MALLETT

Name: David Mallett
Title: Vice President

ON SEMICONDUCTOR CORPORATION

List of Subsidiaries as of 12/31/05 (1)**SCG (Czech) Holding Corporation {Delaware}****SCG (China) Holding Corporation {Delaware}**

Leshan-Phoenix Semiconductor Company Limited [JV] {Leshan, China}

SCG (Malaysia SMP) Holding Corporation {Delaware}**Semiconductor Components Industries, LLC {Delaware}**

Semiconductor Components Industries of Rhode Island, Inc. {Rhode Island}

Semiconductor Components Industries International of Rhode Island, Inc. {Rhode Island}

Semiconductor Components Industries Puerto Rico, Inc. {Delaware}

ON Semiconductor Slovakia a.s. {Slovak Republic}

SCG International Development, LLC {Delaware}

SCG Malaysia Holdings Sdn. Bhd. {Malaysia}

SCG Industries Malaysia Sdn. Bhd. {Malaysia}

ON Semiconductor Technology Malaysia Sdn. Bhd. {Malaysia}

ON Semiconductor Technology Japan Ltd. {Japan}

ON Semiconductor Japan Ltd. {Japan}

ON Semiconductor Philippines, Inc. {Philippines}

SCG Asia Capital Pte. Ltd. {Malaysia}

SCG Czech Design Center s.r.o. {Czech Republic}

ON Semiconductor Czech Republic, s.r.o., legal successor {Czech Republic}

ON Semiconductor Hong Kong Design Limited {Hong Kong, China} [also d/b/a ON Semiconductor]

ON Semiconductor Design (Shanghai) Limited {China}

ON Semiconductor Trading Ltd. {Bermuda}

ON Semiconductor Limited {United Kingdom}

SCG Korea Ltd. {Korea}

ON Semiconductor Canada Trading Corporation {Canada}

ON Semiconductor Germany GmbH {Germany}

ON Semiconductor France SAS {France}

ON Semiconductor Italy S.r.l. {Italy}

Semiconductor Components Industries Singapore Pte Ltd {Singapore}

SCG Hong Kong SAR Limited {Hong Kong, China} [also d/b/a ON Semiconductor]

ON Semiconductor Trading (Shanghai) Limited

ON Semiconductor (Shenzhen) Limited

“{ }” Denotes jurisdiction

(1) Listing includes only doing business names and does not include trade names.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-117016, No. 333-114045, No. 333-111702 and No. 333-73320) and the Registration Statements on Form S-8 (No. 333-118814, No. 333-107895, No. 333-71336, No. 333-37638 and No. 333-34130) of ON Semiconductor Corporation of our report dated February 22, 2006 relating to the financial statements and financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona

February 22, 2006

POWER OF ATTORNEY

(Curtis J. Crawford)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ CURTIS J. CRAWFORD

Curtis J. Crawford

POWER OF ATTORNEY

(Dan McCranie)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as Chairman of the Board of Directors of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ DAN MCCRANIE

Dan McCranie

POWER OF ATTORNEY

(Donald Colvin)

I hereby appoint Bill George, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me on behalf of the registrant, ON Semiconductor Corporation, and/or as a Chief Financial Officer and/or Treasurer of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ DONALD COLVIN

Donald Colvin

POWER OF ATTORNEY
(Emmanuel Hernandez)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ EMMANUEL HERNANDEZ

Emmanuel Hernandez

POWER OF ATTORNEY

(Jerome N. Gregoire)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ JEROME N. GREGOIRE

Jerome N. Gregoire

POWER OF ATTORNEY

(John W. Marren)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ JOHN W. MARREN

John W. Marren

POWER OF ATTORNEY

(Justin T. Chang)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ JUSTIN T. CHANG

Justin T. Chang

POWER OF ATTORNEY

(Keith D. Jackson)

I hereby appoint Donald Colvin, Bill George and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me on behalf of the registrant, ON Semiconductor Corporation, and/or as a Director and/or Chief Executive Officer of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ KEITH D. JACKSON

Keith D. Jackson

POWER OF ATTORNEY
(Kevin Burns)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ KEVIN BURNS

Kevin Burns

POWER OF ATTORNEY

(Richard W. Boyce)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ RICHARD W. BOYCE

Richard W. Boyce

POWER OF ATTORNEY

(Robert H. Smith)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2005, and any amendments.

Dated: February 15, 2006

/s/ ROBERT H. SMITH

Robert H. Smith

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Keith D. Jackson, certify that:

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

Date: February 22, 2006

/s/ KEITH D. JACKSON

Keith D. Jackson
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald Colvin, certify that:

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

Date: February 22, 2006

/s/ DONALD COLVIN

Donald Colvin
Chief Financial Officer

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

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

The Annual Report on Form 10-K for the fiscal year ended December 31, 2005 ("Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 22, 2006

/s/ KEITH D. JACKSON

Keith D. Jackson
President and Chief Executive Officer

Dated: February 22, 2006

/s/ DONALD COLVIN

Donald Colvin
Senior Vice President and
Chief Financial Officer

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