read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements, including the notes thereto, included elsewhere in this report.

	Year ended December 31,				
	2011	2010	2009	2008	2007
	(in millions, except per share data)				
Statement of Operations data:					
Revenues	$3,442.3	$2,313.4	$1,768.9	$2,054.8	$1,566.2
Restructuring, asset impairments and other, net (1)	102.7	10.5	24.9	26.2	3.0
Goodwill and intangible impairment charges (2)	—	16.1	—	544.5	—
Net income (loss) attributable to ON Semiconductor Corporation	11.6	290.5	61.0	(428.9)	203.6
Diluted earnings (loss) per common share	$ 0.03	$ 0.65	$ 0.14	$ (1.13)	$ 0.68

	Year ended December 31,				
	2011	2010	2009	2008	2007
Balance Sheet data:					
Total assets	$3,883.5	$2,919.2	$2,414.3	$2,354.2	$1,637.6
Long-term debt, less capital leases	1,106.1	773.3	854.9	917.8	1,096.7
Capital leases	100.9	115.5	78.6	92.0	62.7
Stockholders' equity	1,493.5	1,388.0	1,004.6	855.5	242.7

(1) Restructuring, asset impairments and other, net includes employee severance and other exit costs associated with our worldwide cost reduction and profitability enhancement programs, asset impairments, and executive severance costs and any other infrequent or unusual items in 2011, such as $70.1 million associated with the closure of our Aizu, Japan facility, $11.9 million associated with the closure of our Thailand facilities, $10.0 million associated with our consolidation efforts for our 2011 SANYO Semiconductor acquisition, $4.8 million from losses resulting from the Japan earthquake and resulting tsunami, $4.3 million associated with the closure of our Phoenix, Arizona wafer manufacturing facility, $2.4 million from our 2011 global workforce reduction, $0.5 million for the write-off of one in process research and development project associated with an acquisition, partially offset by the reduction of $1.5 million for a previously accrued amount associated with a lease termination**;** a $0.4 million gain in 2010 associated with the sale of assets and intellectual property, partially offset by a $0.8 million payment for settlement of various litigation matters and a $3.9 million write-off of the net book value of a cost investment; a $2.0 million gain in 2009 associated with the sale of assets and intellectual property combined with a $2.5 million gain associated with the settlement of a legal dispute, partially offset by the write-off of net book value of property, plant, and equipment of $6.3 million; and a $0.7 million gain in 2008 associated with the reversal of certain capital lease obligations, partially offset by the write-off of the net book value of certain software licenses that were included in property, plant, and equipment.

(2) For the year ended December 31, 2010, we recorded $16.1 million of goodwill and intangible asset impairment charges relating to our PulseCore acquisition on our statement of operations and for the year ended December 31, 2008, we recorded $544.5 million of goodwill impairment charges relating to AMIS, our PTC Business and to Cherry Semiconductor Corporation goodwill on our statement of operations.

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 contain 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 1, Item 1A "Risk Factors" and included elsewhere in this Form 10-K.

Executive Overview

This section presents summary information regarding our industry, markets, business and operating trends only. For a full understanding of the information summarized in this overview, you should read Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its entirety.

Industry Overview

According to WSTS (an industry research firm), worldwide semiconductor industry sales were $299.5 billion in 2011, an increase of 0.4% from $298.3 billion in 2010. We participate in unit and revenue surveys and use data summarized by WSTS 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 2007:

Year Ended December 31,	Worldwide Semiconductor Industry Sales (1) (in billions)	Percentage Change	Total Addressable Market Sales (1)(2) (in billions)	Percentage Change
2011	$ 299.5	0.4%	$ 142.8	19.0%
2010	$ 298.3	31.8%	$ 120.0	25.0%
2009	$ 226.3	(9.0)%	$ 96.0	55.3%
2008	$ 248.6	(2.7)%	$ 61.8	86.7%
2007	$ 255.6	3.2%	$ 33.1	7.8%

(1) Based on shipment information published by WSTS. WSTS collects this information based on product shipments, which is different from our revenue recognition policy as described in "Critical Accounting Policies and Estimates—Revenue Recognition" in the notes to our audited consolidated financial statements 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, microwave power transistors/modules, microwave diodes, and microwave transistors, power modules, logic and optoelectronics); (b) standard analog products (amplifiers, voltage regulators and references, comparators, ASSP consumer, ASSP computer, ASSP automotive and ASSP industrial and others); (c) standard logic products (general purpose logic); (d) SP logic (consumer other, computer other peripherals, wired communications, automotive and industrial); (e) CMOS image sensors; (f) memory; (g) microcontrollers; and (h) motor control modules.

Worldwide semiconductor industry sales grew 3.2% in 2007, declined 2.7% in 2008, declined 9.0% in 2009, grew 31.8% in 2010 and grew 0.4% in 2011, following a pattern associated with the financial crisis and subsequent recovery. The increase from 2010 to 2011 is related to the economic expansion in emerging and developing markets, the transition from mechanical to electronic systems, increased semiconductor content in applications, offset by slow economic recovery in mature markets. Sales in our total addressable market grew significantly in 2008, reflecting the expanded markets we now serve with the acquisitions of AMIS and Catalyst that exceeded the impact of any price declines. Sales in our total addressable market increased to $96.0 billion in 2009 and to $120.0 billion in 2010 and to $142.8 billion in 2011, which is consistent with the trend in the worldwide market. The increase from $120.0 billion in 2010 to $142.8 billion in 2011 is related to the acquisition of SANYO Semiconductor, which expanded access to Japanese markets as well as motor control and inverter market spaces. The most recently published estimates of WSTS project a compound annual growth rate in our total addressable market of approximately 3.2% for the next three years. These projections are not ours and may not be indicative of actual results.

Recent Results

Our total revenues for the year ended December 31, 2011 were $3,442.3 million, an increase of 49% from $2,313.4 million for the year ended December 31, 2010, the majority of which was due to revenues from our acquisition of SANYO Semiconductor. During 2011, we reported net income of $11.6 million compared to net income of $290.5 million in 2010. Our gross margin decreased by approximately 1,200 basis points to 29.3% in 2011 from 41.3% in 2010, due to a lower margin on the SANYO Semiconductor business which includes decreases from expensing of fair market value step-up on inventory of $58.3 million during 2011, combined with $80.4 million of amortization of non-cash manufacturing expenses associated with a favorable supply agreement.

During 2011, we committed to plans to close our Aizu, Japan manufacturing facility, our probe, assembly and test operations located in Ayutthaya, Thailand and to partially close our Bang Pa In, Thailand facility. See Note 6: “Restructuring, Asset Impairments, and Other, Net” of the notes to the audited consolidated financial statements located elsewhere in this report for further detail.

ON Semiconductor Q1 2012 Outlook

Based upon product booking trends, backlog levels, and estimated turns levels, we estimate that our revenues will be approximately $720.0 million to $760.0 million in the first quarter of 2012. Backlog levels for the first quarter of 2012 represent approximately 80% to 85% of our anticipated first quarter 2012 revenues. We estimate average selling prices for the first quarter of 2012 will be down approximately 2% to 3% compared to the fourth quarter of 2011. For the first quarter of 2012, we estimate that gross margin as a percentage of revenues will be approximately 31.5% to 32.5%.

Business Overview

We are a supplier of high performance, silicon solutions for energy efficient electronics. Our broad portfolio of power and signal management, logic, discrete and custom devices helps customers efficiently solve their design challenges in automotive, communications, computing, consumer, industrial, LED lighting, medical, military/aerospace and power applications. We design, manufacture and market an extensive portfolio of semiconductor components that addresses the design needs of sophisticated electronic systems and products. Our power management semiconductor components control, convert, protect and monitor the supply of power to the different elements within a wide variety of electronic devices. Our custom ASICs use analog, digital signal processing, mixed-signal and advanced logic capabilities to act as the brain behind many of our automotive, medical, military, aerospace, consumer and industrial customers’ unique products. Our data management semiconductor components provide high-performance clock management and data flow management for precision computing and communications systems. Our standard semiconductor components serve as “building block” components within virtually all types of 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.

New Product Innovation

As a result of our research and development initiatives, we introduced 285 new product families in 2011. There were 237 new product families in 2010. 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. As always, it is our practice to regularly re-evaluate our research and development spending, to assess the deployment of resources and to review the funding of high growth technologies. We deploy people and capital with the goal of maximizing our investment in research and development in order to position ourselves for continued growth. As a result, we often invest opportunistically to refresh existing products in our commodity logic, analog, memory and discrete products. We invest in these initiatives when we believe there is a strong customer demand or opportunities to innovate our current portfolio in high growth markets and applications.

Cost Savings and Restructuring Activities

Due to the highly competitive nature of the semiconductor industry, we continually evaluate our cost structure and, as necessary, implement profitability enhancement programs to improve our financial performance. In connection with these programs, we aim to rank, as compared to our primary competitors, among the lowest in terms of cost structure. Our programs include efforts to:

- increase our die manufacturing capacity in a cost-effective manner;
- further reduce the number of our product platforms and process flows;
- rationalize our manufacturing operations;
- relocate manufacturing operations or outsource to lower cost regions; and
- reduce selling and administrative expenses.

In 2012, our cost savings and restructuring activities will be focused on our SANYO Semiconductor business, and will include rationalization of manufacturing operations and the reduction of overhead and administrative costs. For further details see Part I, Item 1A “Risk Factors—Trends, Risks and Uncertainties Related to Our Business” located elsewhere in this report.

Macroeconomic Environment

We have recognized efficiencies from implemented restructuring activities and programs and continue to implement profitability enhancement programs to improve our cost structure; however, the semiconductor industry has traditionally been highly cyclical and has often experienced significant downturns in connection with, or in anticipation of, declines in general economic conditions. Over the past twelve months, we believe the business environment has weakened due to economic uncertainty and volatility in the United States and Europe and has been further impacted by the Japan earthquake and resulting tsunami, as well as the recent flooding in Thailand. These factors have either impacted us directly or have affected our customers and suppliers, which in turn has affected our business, including sales, our production capacity, and results of operations. Although we view many of these issues as temporary, our continuing outlook for the future will ultimately affect our future emphasis on marketing to various industries, our future research and development efforts into new product lines and our segments in general.

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, 2011, 2010 and 2009. The amounts in the following table are in millions:

	Year ended December 31,			Dollar Change	
	2011	2010	2009	2010 to 2011	2009 to 2010
Revenues	$3,442.3	$2,313.4	$1,768.9	$ 1,128.9	$ 544.5
Cost of revenues	2,433.5	1,357.4	1,148.2	1,076.1	209.2
Gross profit	1,008.8	956.0	620.7	52.8	335.3

	Year ended December 31, 2011	2010	2009	Dollar Change 2010 to 2011	2009 to 2010
Operating expenses:					
Research and development	362.5	248.0	198.8	114.5	49.2
Selling and marketing	195.1	145.6	120.9	49.5	24.7
General and administrative	192.4	129.9	104.5	62.5	25.4
Amortization of acquisition-related intangible assets	42.7	31.7	29.0	11.0	2.7
Restructuring, asset impairments and other, net	102.7	10.5	24.9	92.2	(14.4)
Goodwill and intangible asset impairment charges	—	16.1	—	(16.1)	16.1
Total operating expenses	895.4	581.8	478.1	313.6	103.7
Operating income	113.4	374.2	142.6	(260.8)	231.6
Other income (expenses):					
Interest expense	(68.9)	(61.4)	(64.6)	(7.5)	3.2
Interest income	1.1	0.5	0.8	0.6	(0.3)
Other	(8.9)	(6.9)	(4.7)	(2.0)	(2.2)
Loss on debt repurchase and exchange	(23.2)	(0.7)	(3.1)	(22.5)	2.4
Gain on SANYO Acquisition	24.3	—	—	24.3	—
Other income (expenses), net	(75.6)	(68.5)	(71.6)	(7.1)	3.1
Income before income taxes and minority interests	37.8	305.7	71.0	(267.9)	234.7
Income tax provision	(22.9)	(12.8)	(7.7)	(10.1)	(5.1)
Net income	14.9	292.9	63.3	(278.0)	229.6
Net income attributable to minority interests	(3.3)	(2.4)	(2.3)	(0.9)	(0.1)
Net income attributable to ON Semiconductor Corporation	$ 11.6	$290.5	$ 61.0	$ (278.9)	$ 229.5

Revenues

Revenues were $3,442.3 million, $2,313.4 million and $1,768.9 million for 2011, 2010 and 2009, respectively. The increase from 2010 to 2011 was due to revenues from our newly acquired SANYO Semiconductor segment combined with an increase of $68.6 million from our historical segments, which includes the impact from the February 2011 ISBU acquisition and the June 2010 SDT acquisition. Our historical segment improvement was a result of a 6.2% increase from volume and mix, partially offset by a 2.0% decrease from average selling prices. The increase from 2009 to 2010 was due to an increase in volume and mix of sales of 33.7%, combined with an increase in revenues from our acquisitions of SDT, PulseCore and CMD of $63.1 million, partially offset by decreases in average selling prices of 4.4%. The revenues by reportable segment were as follows (dollars in millions):

	Year Ended December 31, 2011	As a % of Revenue	Year Ended December 31, 2010	As a % of Revenue	Year Ended December 31, 2009	As a % of Revenue
Computing & Consumer Products Group	609.1	18%	609.1	27%	473.0	27%
Automotive, Industrial, Medical and Mil-Aero Products Group	894.7	25%	794.7	34%	623.8	35%
Standard Products Group	878.2	26%	909.6	39%	672.1	38%
SANYO Semiconductor Products Group	1,060.3	31%	—	—%	—	—%
Total revenues	$ 3,442.3		$ 2,313.4		$ 1,768.9	

Revenues from the computing and consumer products group remained even from 2010 to 2011 and increased from 2009 to 2010. In 2011, the results can be attributed to increased revenue of approximately 4%

from our logic products offset by a decrease of approximately 1% from our analog products. In 2010, the increase of $136.1 million in the segment was in large part due to the improved macroeconomic conditions as compared to 2009, coupled with a recovery period in the semiconductor cycle, which resulted in volume improvements in both analog and logic products.

Revenues from the automotive, industrial, medical and mil-aero products group increased from 2010 to 2011 and increased from 2009 to 2010. In 2011, the increase in revenue is attributed to $50.3 million from products related to the ISBU and SDT acquisitions, as well as an approximate 7% increase in ASIC products, which was attributable to stronger demand in the mixed signal automotive end market. These increases were partially offset by decreases in revenue from high frequency products of 14.1% which was driven by lower demand in industrial and networking end markets. In 2010, the increase of $170.9 million can be primarily attributed to economic and semiconductor cycles strengthening in 2010 as compared to 2009, which resulted in higher revenue of approximately 25% from our ASIC products and a 42% increase in our memory products with the remaining increase being attributed to the $9.5 million of revenues from our acquisition of SDT.

Revenues from the standard products group decreased from 2010 to 2011 and increased from 2009 to 2010. In 2011, the decrease in revenue is a result of decreases of approximately 10% from our analog standard products and an approximate 2% from TMOS standard products. In 2010, this increase can be attributed to the impact of our CMD acquisition which contributed additional revenue of $49.0 million as compared to 2009, with the remaining increase due to the economic factors and semiconductor cycle recovery, as described above in our other segments. These increases in 2010 were primarily in our discrete and TMOS products.

Revenues from the SANYO Semiconductor products group were $1,060.3 million during 2011. These revenues are the result of our January 1, 2011 SANYO Semiconductor acquisition.

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

	Year Ended December 31, 2011	As a % of Revenue	Year Ended December 31, 2010	As a % of Revenue (1)	Year Ended December 31, 2009	As a % of Revenue (1)
Americas	$ 560.6	16%	$ 495.5	21%	378.5	21%
Asia/Pacific	2,453.2	71%	1,444.1	62%	1,103.8	62%
Europe	428.5	13%	373.8	16%	286.6	16%
Total	$ 3,442.3	100%	$ 2,313.4	100%	$ 1,768.9	100%

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

For additional information, see the table of revenues by geographic location included in Note 17: “Segment Information” of the notes to our audited consolidated financial statements included elsewhere in this report.

With our acquisition of SANYO Semiconductor, there has been a further shift in our global revenues to the Asia/Pacific region, with revenues from this region increasing to $2,453.2 million in 2011, an increase of more than 69.9% as compared to 2010.

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices. For the year ended December 31, 2011, none of our customers accounted for more than 10% of our revenues. One of our customers accounted for 13% of our revenues for the year ended December 31, 2010 and 11% for the year ended December 31, 2009.

Gross Profit

The gross profit and gross margin by reportable segment in each of the below three years were as follows (in millions):

	Year Ended December 31, 2011	As a % of Segment Revenue	Year Ended December 31, 2010	As a % of Segment Revenue	Year Ended December 31, 2009	As a % of Segment Revenue
Computing & Consumer Products Group	$ 238.3	39.1%	$ 257.4	42.3%	$ 158.7	33.6%
Automotive, Industrial, Medical and Mil-Aero	450.9	50.4%	415.3	52.3%	292.0	46.8%
Standard Products Group	295.5	33.6%	339.1	37.3%	205.2	30.5%
SANYO Semiconductor Products Group	79.1	7.5%	—	—%	—	—%
Gross profit by segment	$ 1,063.8		$ 1,011.8		$ 655.9	
Unallocated						
Manufacturing (1)	(55.0)	(1.6)%	(55.8)	(2.4)%	(35.2)	(2.0)%
Total gross profit	$ 1,008.8	29.3%	$ 956.0	41.3%	620.7	35.1%

(1) Unallocated manufacturing costs are being shown as a percentage of total revenues.

Our gross profit was $1,008.8 million, $956.0 million and $620.7 million in 2011, 2010, and 2009, respectively. The gross profit increase in 2011 is primarily attributable to the SANYO Semiconductor acquisition and an increase in our automotive, industrial, medical and mil-aero products group, partially offset by a decline in the computing and consumer products and standard products group segments. The $35.6 million increase in the automotive, industrial, medical and mil-aero products group, was driven by the impact of our ISBU and SDT acquisitions which contributed a combined $27.2 million in additional gross profit in 2011 as compared to 2010. Additionally our automotive, industrial, medical and mil-aero products group is comprised of more custom products than our other segments, and, as a result, is less impacted by general pricing pressures on commodity products. The increase was partially offset by decreases in the other historic segments as sales mix and volume improvements during 2011 were outpaced by selling price declines within those segments. The gross profit increases in 2010 were primarily due to improved sales volume in each of our segments, as 2009 was adversely impacted by the global economic slowdown and a downturn in the semiconductor cycle which negatively impacted demand volume and pricing across all of our segments.

Any future improvement to gross profit and margin in our SANYO Semiconductor segment will be largely contingent on the execution of our manufacturing consolidation strategy discussed in Note 6: “Restructuring, Asset Impairments and Other, Net” of the notes to the audited consolidated financial statements included elsewhere in this report and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Executive Overview – Cost Savings and Restructuring Activities” in this Form 10-K.

Gross margin as a percentage of revenues decreased from 41.3% to 29.3% during 2011 compared to 2010, primarily due to lower gross margin of our SANYO Semiconductor segment, which included the impact of $58.3 million associated with the expensing of the step- up in fair market value of inventory and $80.4 million of non-cash manufacturing expenses associated with our SANYO Semiconductor acquisition. For the historic segments, the gross margin decline was due to lower average selling prices combined with the impact of lower factory utilization and higher commodity costs, which negatively impacted the gross margin for each segment. The gross margin increase from 2009 to 2010 for each of the segments, was primarily due to increases in production volume driving better factory utilization and the impact of cost savings from our profitability enhancement programs, combined with lower expensing of fair market value of inventory in 2010 compared to 2009, partially offset by a decrease in average selling prices during 2010.

Operating Expenses

Research and development expenses were $362.5 million, $248.0 million and $198.8 million, representing 10.5%, 10.7% and 11.2% of revenues for 2011, 2010 and 2009, respectively. The increase from 2010 to 2011 was primarily attributed to increased expenses associated with our on-going research and development activities associated with our SANYO Semiconductor acquisition, combined with an increase in labor cost related to increased head count during fiscal 2011 as compared to 2010. The increase from 2009 to 2010 was primarily attributed to increased expenses associated with ongoing research and development activities as a result of the acquisition of the SDT, PulseCore and CMD businesses, increased salaries and wages due to the elimination of work furloughs or short work weeks in 2010 based on local requirements, and an increase in performance bonuses as a result of our achievement of certain financial goals.

Selling and marketing expenses were $195.1 million, $145.6 million and $120.9 million, representing 5.7%, 6.3% and 6.8% of revenues in 2011, 2010 and 2009, respectively. The increase from 2010 to 2011 was primarily attributed to increased expenses associated with our on-going sales and marketing activities associated with our SANYO Semiconductor acquisition combined with an increase in labor cost related to increased head count during fiscal 2011 as compared to 2010. The increase from 2009 to 2010 was primarily attributed to increased salaries and wages due to the elimination of work furloughs or short work weeks in 2010 based upon local requirements and an increase in performance bonuses as a result of our achievement of certain financial goals.

General and administrative expenses were $192.4 million, $129.9 million and $104.5 million representing 5.6%, 5.6% and 5.9% of revenues in 2011, 2010 and 2009, respectively. The increase from 2010 to 2011 was attributed to increased expenses associated with our on-going general and administrative activities associated with our SANYO Semiconductor acquisition combined with an increase in labor cost related to increased head count during fiscal 2011 as compared to 2010. The increase from 2009 to 2010 was attributed to increases in acquisition related expenses, employee salaries and wages due to the elimination of work furloughs or short work weeks in 2010 based upon local requirements and an increase in performance bonus as a result of our achievement of certain financial goals, partially offset by decreased stock compensation expense.

Other Operating Expenses

The following table shows the amounts of other operating expenses for 2011, 2010 and 2009 (in millions):

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Amortization of acquisition-related intangible assets	$ 42.7	$ 31.7	$ 29.0
Restructuring, asset impairments and other, net	$ 102.7	$ 10.5	$ 24.9
Goodwill and intangible asset impairment	$ —	$ 16.1	$ —

Other Operating Expenses—Amortization of Acquisition—Related Intangible Assets

Amortization of acquisition-related intangible assets was $42.7 million, $31.7 million and $29.0 million in 2011, 2010 and 2009 respectively. The increase of $11.0 million from 2010 to 2011 was primarily attributed to amortization of intangible assets associated with our acquisitions of the ISBU from Cypress Semiconductor, SANYO Semiconductor, and SDT. The increase of $2.7 million from 2009 to 2010 was primarily attributed to amortization of intangible assets associated with our acquisitions of PulseCore, CMD and SDT.

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

Restructuring, asset impairments and other, net was $102.7 million, $10.5 million and $24.9 million in 2011, 2010 and 2009, respectively. The information below summarizes the major activities in each year. For detailed information see Note 6: “Restructuring, Asset Impairments and Other, Net” of the notes to our audited consolidated financial statements included elsewhere in this report.

2011

During the year ended December 31, 2011, we recorded $24.8 million of asset impairment charges associated with the December 2011 announced closure of our Ayutthaya, Thailand facility and partial closure of the Bang Pa In, Thailand facility due to the flooding that occurred. These closures are expected to be completed by June of 2012. Additionally, we recorded a $28.3 million inventory write-off as a result of the recent flooding. The asset impairment charges and inventory write-off were partially offset by the receipt of insurance proceeds of $25.0 million in 2011, combined with a non-cash insurance recovery of $23.9 million, which represents insurance proceeds received in the first quarter of 2012. Additionally, we recorded $5.7 million of employee separation charges and other charges of $2.1 million for costs incurred since the announced closures due to the halt in manufacturing at these facilities resulting from the flooding.

During the year ended December 31, 2011, we recorded $61.5 million of asset impairment charges associated with the October 2011 announced shutdown of our Aizu, Japan wafer manufacturing facility, which is expected to be completed by June 2012. Additionally, we recorded $6.5 million of employee separation charges and $2.0 million of other costs for the pension true-up for employees associated with this activity.

In January 2011, we acquired SANYO Semiconductor and announced plans to integrate certain operations of SANYO Semiconductor into our existing operations, primarily for cost savings purposes. During the year ended December 31, 2011, we recorded $8.5 million in charges related to this integration. Additionally, we recorded exit costs of approximately $1.5 million for items relating to the consolidation of factories. We recorded $4.8 million of other charges relating to damaged inventory and other assets relating to the Japanese earthquake and the resulting tsunami that occurred in 2011.

2010

During the year ended December 31, 2010, we recorded $3.9 million of asset impairment charges associated with the write off of a cost basis investment, $3.5 million of employee separation costs and $0.1 million of exit costs associated with our 2010 acquisition of CMD and $2.2 million of employee separation charges associated with our 2010 acquisition of SDT.

2009

During the year ended December 31, 2009, we recorded $12.6 million of employee separation charges and $0.4 million of exit costs associated with our January 2009 worldwide employee reduction program.

During the year ended December 31, 2009, we recorded $5.4 million of asset impairments on the Piestany, Slovakia manufacturing facility resulting from a decline in the estimated fair value of the Piestany property. Additionally, we recorded $1.7 million of employee separation charges and $1.7 million of exit costs associated with the shutdown of the manufacturing facility.

During the year ended December 31, 2009, we recorded a $3.9 million of employee separation charges associated with our reduction in workforce in Belgium.

During the year ended December 31, 2009, we recorded a $2.5 million gain on the settlement of two legal disputes.

During the year ended December 31, 2009, we recorded a $2.0 million gain on the sale of intellectual property.

Other Operating Expenses—Goodwill and Intangible Asset Impairment Charges

During the fourth quarter of 2010, we determined, based on a decline in the business outlook, that $8.9 million of carrying value of goodwill relating to our 2009 acquisition of PulseCore and $7.2 million of carrying value related to intangible assets was impaired. Impairment charges were recognized in the automotive, industrial, medical and mil-aero product segment.

There was no impairment of goodwill or intangible assets in the years ended December 31, 2011 and 2009.

Operating Income

Information about operating income from our reportable segments for the years ended December 31, 2011, December 31, 2010 and December 31, 2009 is as follows, in millions:

	Computing & Consumer Group	Automotive, Industrial, Medical and Mil-Aero Products Group	Standard Products Group	SANYO Semiconductor Products Group	Total
For year ended December 31, 2011:					
Segment operating income (loss)	$ 103.0	$ 165.5	$ 176.9	$ (159.4)	$286.0
For year ended December 31, 2010:					
Segment operating income	$ 122.7	$ 154.2	$ 221.2	$ —	$498.1
For year ended December 31, 2009:					
Segment operating income	$ 45.0	$ 67.2	$ 114.6	$ —	$226.8

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

	Year Ended December 31, 2011	December 31, 2010	December 31, 2009
Operating income for reportable segments	$ 286.0	$ 498.1	$ 226.8
Unallocated amounts:			
Restructuring, asset impairments and other charges, net	(102.7)	(10.5)	(24.9)
Goodwill and intangible asset impairment	—	(16.1)	—
Other unallocated manufacturing costs	(55.0)	(55.8)	(35.2)
Other unallocated operating expenses	(14.9)	(41.5)	(24.1)
Operating income	$ 113.4	$ 374.2	$ 142.6

Other unallocated manufacturing expenses remained flat from 2010 to 2011; however, they increased from $35.2 million in 2009 to $55.8 million in 2010 primarily due to increases in the price of commodities from 2009 to 2010.

Other unallocated operating expenses decreased from $41.5 million in 2010 to $14.9 million in 2011 due to certain cost activities being attributed to certain segments in the current year. Other unallocated operating expenses increased from $24.1 million in 2009 to $41.5 million in 2010 primarily due to increased costs to develop new production processes in our Gresham wafer fabrication facility.

Interest Expense

Interest expense was $68.9 million, $61.4 million and $64.6 million in 2011, 2010 and 2009, respectively. We recorded amortization of debt discount to interest expense of $34.9 million, $33.7 million and $34.9 million for 2011, 2010 and 2009, respectively. Our average long-term debt balance (including current maturities and net of debt discount) during 2011, 2010 and 2009 was $1,048.0 million, $911.2 million and $971.6 million, respectively. Our weighted average interest rate on long-term debt (including current maturities and net of debt discount) was 6.6%, 6.7% and 6.6% per annum in 2011, 2010 and 2009, respectively. See “Liquidity and Capital Resources — Key Financing Events” below for a description of our refinancing activities.

Other

Other expense, which is comprised of foreign translation currency loss was \$8.9 million, \$6.9 million and \$4.7 million in 2011, 2010 and 2009, respectively. The change from year to year is attributable to the strength of foreign currencies against the dollar for the periods presented, net of the impact from our hedging activity.

Loss on Debt Repurchase and Exchange

During 2011, we exchanged \$198.6 million in par value (\$177.2 million of carrying value) of our 2.625% Convertible Senior Subordinated Notes due 2026 for \$198.6 million in par value (\$176.4 million of carrying value) of 2.625% Convertible Senior Subordinated Notes due 2026, Series B and \$15.9 million in cash, which resulted in a loss on debt exchange of \$17.9 million, including the write-off of \$1.7 million in unamortized debt issuance costs.

During 2011, we repurchased \$53.0 million in par value (\$46.6 million of carrying value) of our 2.625% Convertible Senior Subordinated Notes due 2026 for \$56.2 million in cash, which resulted in a loss on debt repurchase of \$5.3 million, including the write-off of \$0.5 million in unamortized debt issuance costs.

During 2010, we prepaid \$169.8 million of our senior bank facilities and incurred a \$0.8 million loss on the prepayment, for the write-off of \$0.8 million in unamortized debt issuance costs. Additionally, during 2010, we recognized a \$0.1 million gain on the modification of our Zero Coupon Convertible Senior Subordinated Notes due 2024.

During 2009, we repurchased \$99.7 million of our Zero Coupon Convertible Senior Subordinated Notes due 2024 for \$64.8 million in cash and the issuance of 7.4 million shares of common stock, which had a value of \$28.5 million based on the closing price of our common stock at the time of repurchase. We reduced unamortized debt discount by \$8.7 million and recognized a \$3.1 million loss on the repurchases, which included the write-off of \$0.7 million in unamortized debt issuance costs.

For further discussion of loss on debt repurchase and exchange see Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

Gain on SANYO Semiconductor Acquisition

The purchase price of SANYO Semiconductor was less than the fair value of its net assets, resulting in a gain on acquisition of \$24.3 million. We believe the gain recognized upon acquisition was the result of a number of factors, including the following: SANYO Electric wanting to discontinue semiconductor operations, significant losses recognized by SANYO Electric, SANYO Electric viewing this as the best outcome for SANYO Semiconductor and the fact that we expect to incur future expenses associated with the transfer and consolidation of certain operations. For further discussion of the gain on the SANYO Semiconductor acquisition see Note 4: “Acquisitions” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

Provision for Income Taxes

Provision for income taxes was \$22.9 million, \$12.8 million and \$7.7 million in 2011, 2010 and 2009, respectively.

The 2011 provision of \$22.9 million included \$19.4 million for income and withholding taxes of certain of our foreign operations, \$3.2 million of additional valuation allowance against certain deferred tax assets and \$2.9

million of interest on existing reserves for potential liabilities in foreign taxing jurisdictions. This is partially offset by the reversal of $2.6 million for reserves and interest for potential liabilities in foreign taxing jurisdictions which were effectively settled or for which the statute lapsed during 2011.

The 2010 provision for income taxes of $12.8 million included $13.5 million for income and withholding taxes of certain of our foreign operations and $2.7 million of interest on existing reserves for potential liabilities in foreign taxing jurisdictions. This is partially offset by the reversal of $3.4 million for reserves and interest for potential liabilities in foreign taxing jurisdictions which were effectively settled or for which the statute lapsed during 2010.

The 2009 provision for income taxes of $7.7 million included $13.0 million for income and withholding taxes of certain of our foreign and U.S. operations and $3.4 million of new reserves and interest on existing reserves for potential liabilities in foreign taxing jurisdictions, partially offset by a tax benefit of $8.7 million for the reversal of previously accrued income taxes for uncertain tax positions that have been effectively settled through examination.

Our provision for income taxes is subject to volatility and could be adversely impacted by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates. Our effective tax rate was 60.6% for the year ended December 31, 2011, which is above the U.S. statutory federal income tax rate of 35%, due to the impact of impairment losses and other operating losses recognized during the year in foreign jurisdictions for which tax benefits have not been recognized because uncertainty regarding their future realization exists. Our effective tax rate was lower than the U.S. statutory federal income tax rate for the years ended December 31, 2010 and 2009, due to our domestic tax losses and tax rate differentials in our foreign subsidiaries. We continue to maintain a full valuation allowance on all of our domestic deferred tax assets.

Our provision for income taxes does not include provisions for U.S. income taxes and foreign withholding taxes associated with the repatriation of undistributed earnings of certain foreign subsidiaries that have not been previously taxed in the United States, which we intend to reinvest in our foreign subsidiaries. If these earnings were distributed to the United States in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate of 35% and for further explanation of our provision for income taxes, see Note 9: “Income Taxes” of the notes to the audited consolidated financial statements included elsewhere in this Form 10-K.

Liquidity and Capital Resources

This section includes a discussion and analysis of our cash requirements, off-balance sheet arrangements, contingencies, sources and uses of cash, operations, working capital, and long-term assets and liabilities.

Cash Requirements

Contractual Obligations

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, 2011 and the effect such obligations are expected to have on our liquidity and cash flow in the future (in millions):

	Payments Due by Period						
Contractual obligations (1)(2)	**Total**	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**
Long-term debt, excluding capital leases (3)	$1,251.6	$369.9	$319.5	$ 62.2	$ 74.0	$247.2	$ 178.8
Capital leases (3)	108.4	39.1	34.1	28.4	2.9	1.3	2.6
Operating leases (4)	93.9	22.0	17.1	14.1	11.7	12.6	16.4
Pension obligation (2)	30.5	15.3	3.6	3.6	4.0	4.0	—
Purchase obligations (4):							
Capital purchase obligations	103.5	95.8	5.1	1.5	0.5	0.3	0.3
Inventory purchase obligations	127.9	72.5	14.0	10.0	9.4	4.9	17.1
Mainframe support	11.7	5.8	5.9	—	—	—	—
Information technology and communication services	21.2	16.7	4.5	—	—	—	—
Other	14.4	12.6	0.9	0.6	0.3	—	—
Total contractual obligations	$1,763.1	$649.7	$404.7	$120.4	$102.8	$270.3	$ 215.2

(1) The table above does not include approximately $21.4 million of liabilities related to unrecognized tax benefits because we are unable to reasonably estimate the timing of the settlement of such liabilities.

(2) The table above does not include approximately $151.0 million of underfunded obligation relating to our proportionate share of liability under SANYO Electric's multiemployer defined benefit pension plans from which we intend to withdraw and $5.0 million of unfunded liability under defined benefit plans from which we do not intend to withdraw.

(3) Includes the interest payments for long-term debt and capital leases (applicable rates at December 31, 2011).

(4) These represent our off-balance sheet arrangements (See "Liquidity and Capital Resources — Off-Balance Sheet Arrangements" for a description of our off-balance sheet arrangements).

See Note 8: "Long-Term Debt," of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for a discussion of long-term debt.

Our other long-term contractual obligations consist of estimated payments to fund liabilities that have been accrued in our consolidated balance sheet for our foreign pension plans (see Note 7: "Balance Sheet Information" and Note 12: "Employee Benefit Plans" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K).

Our balance of cash and cash equivalents was $652.9 million at December 31, 2011. Additionally, our balance of short-term investments was $248.6 million at December 31, 2011. We believe that our cash flows from operations, coupled with our existing cash and cash equivalents and short-term investments will be adequate to fund our operating and capital needs for at least the next 12 months. Total cash and cash equivalents and short-term investments at December 31, 2011 include approximately $556.9 million available in the United States. In addition to cash and cash equivalents and short-term investments already on hand in the United States, we have the ability to raise cash through existing credit facilities, new bank loans, debt obligations or by settling loans with our foreign subsidiaries in order to cover our domestic needs.

Off-Balance Sheet Arrangements

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

In the normal course of business, we provide standby letters of credit or other guarantee instruments to certain parties initiated by either our subsidiaries or us, as required for transactions such as material purchase commitments, agreements to mitigate collection risk, leases or customs guarantees. A bank guarantee issued on our behalf under a non-reusable commitment credit with the bank had an outstanding amount of $3.6 million as of December 31, 2011. The Belgian bank that issued the guarantee has the right to create a mortgage on the real property of one of our European subsidiaries in the amount of $3.0 million, but had not done so as of December 31, 2011. We also had outstanding guarantees and letters of credit outside of our non-reusable commitment credit totaling $9.1 million at December 31, 2011.

As part of securing financing in the normal course of business, we issued guarantees related to our receivable financing, capital lease obligations and real estate mortgages, which totaled approximately $118.1 million as of December 31, 2011. We are also a guarantor of SCI LLC's unsecured loan with SANYO Electric which had a balance of $339.8 million as of December 31, 2011. See Note 8: "Long-Term Debt" of the notes to our audited consolidated financial statements found elsewhere in this Form 10-K for further discussion.

For our operating leases, we expect to make cash payments and similarly incur expenses totaling $93.9 million as payments come due. We have not recorded any liability in connection with these operating leases, letters of credit and guarantee arrangements.

In connection with the SANYO Semiconductor acquisition, we acquired $5.0 million of off-balance sheet net unfunded multiemployer defined benefit pension plan liabilities.

Based on historical experience and information currently available, we believe that in the foreseeable future we will not be required to make payments under the standby letters of credit or guarantee arrangements.

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 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.

In connection with the SANYO Semiconductor acquisition, we entered into an operational supply agreement that provides that if we continue to operate in certain of the SANYO Semiconductor manufacturing facilities in Japan using SANYO Electric resources through the end of 2012, including certain seconded employees, we could receive operation support credits of up to approximately $301.6 million, of which we have used approximately $184.1 million through December 31, 2011, leaving us a balance of $117.5 million as of December 31, 2011. There are no guarantees that we will be able to fully utilize these credits.

We face risk of exposure to warranty and product liability claims in the event that our products fail to perform as expected or such failure of our products results, or is alleged to result, in bodily injury or property damage (or both). In addition, if any of our designed products are alleged to be defective, we may be required to participate in their recall. Depending on the significance of any particular customer and other relevant factors, we may agree to provide more favorable indemnity rights to such customer for valid warranty claims.

From time to time, we have been active in merger and acquisition activity. In connection with these mergers or acquisitions, we have agreed to indemnify the other party or parties to the merger or acquisition agreement for certain claims or occurrences, limited in most instances by time and/or monetary amounts.

We and our 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. 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 advisers 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" and Note 15: "Commitment and Contingencies" of the notes to our audited consolidated financial statements in this Form 10-K for possible contingencies related to legal matters. See also Part I, Item 1 "Business—Government Regulation" 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, for strategic acquisitions and investments, to repurchase our stock and other Company securities, 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 and cash and cash equivalents on hand and short-term investments. 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 the impact on our business and operations as a result of the Thailand flooding, 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 production and cost efficiency 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, macroeconomic conditions, sudden reductions in the general availability of lending from banks or the related increase in cost to obtain bank financing; and our ability to maintain compliance with covenants under our debt agreements in effect from time to time.

Our ability to service our long-term debt including our senior subordinated notes, to remain in compliance with the various covenants contained in our debt 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 at least the next twelve months. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

During the ordinary course of business, we evaluate our cash requirements and, if necessary, adjust our expenditures for inventory, operating expenditures and capital expenditures to reflect the current market conditions and our projected sales and demand. This evaluation currently includes evaluating the impact of the recent Thailand flooding and Japan earthquake and resulting tsunami. For example in 2011, we paid $316.4 million for capital expenditures, while in 2010 we paid $188.9 million. Our current projection for capital expenditures in 2012 is $250.0 million to $275.0 million, of which our current minimum committment is $95.8 million. The capital expenditure levels can materially influence our available cash for other initiatives.

On December 23, 2011, we entered into a $325.0 million, five-year senior revolving credit facility, which significantly increases our liquidity and is described below under “Key Financing Events — Senior Revolving Credit Facility.”

Primary Cash Flow Sources

Our long-term cash generation is dependent on the ability of our operations to generate cash. Our cash flows from operations is summarized as follows:

	For the year ended December 31,		
	2011	2010	2009
Summarized cash flow from operating activities			
Net income	$ 14.9	$292.9	$ 63.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	229.4	166.9	155.6
Non-cash manufacturing expenses associated with favorable supply agreement	80.4	—	—
Gain on acquisition of SANYO Semiconductor	(24.3)	—	—
Non-cash stock compensation expense	33.5	52.5	54.2
Non-cash interest	34.9	33.7	34.9
Non-cash asset impairment charges	86.3	3.9	6.3
Non-cash goodwill and intangible asset impairment charges	0.5	16.1	—
Other miscellaneous adjustments	48.6	7.1	24.1
Changes in assets and liabilities (exclusive of the impact of acqusitions):			
Receivables	89.1	(22.9)	(71.5)
Inventories	102.1	(84.0)	44.8
Deferred income on sales to distributors	22.5	50.7	(15.4)
Other miscellaneous changes in assets and liabilities	(172.4)	34.9	(17.0)
Net cash provided by operating activities	$ 545.5	$551.8	$279.3

Our ability to maintain positive operating cash flows is dependent on, among other factors, our success in achieving our revenue goals and manufacturing and operating cost targets.

Our management of our assets and liabilities, including both working capital and long-term assets and liabilities, also influences our operating cash flows and each of these components is discussed below.

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 materials and increase production. Our working capital may also be affected by restructuring programs, which may require us to use cash for severance payments, asset transfers and contract termination costs. Our working capital, including cash and cash equivalents and short-term investments, was $852.2 million at December 31, 2011 and has fluctuated between $523.7 million and $1,002.7 million over the last eight quarter-ends. Although investments made to fund working capital will reduce our cash balances, these investments are necessary to support business and operating initiatives.

Long-Term Assets and Liabilities

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

Our manufacturing rationalization plans have included efforts to utilize our existing manufacturing assets and supply arrangements more efficiently. We believe that near-term access to additional manufacturing capacity, should it be required, could be readily obtained on reasonable terms through manufacturing agreements with third parties. Cash capital expenditures were $316.4 million, $188.9 million and $55.3 million during 2011, 2010 and 2009, respectively. We will continue to look for opportunities to make strategic purchases in the future for additional capacity. As a result of the Thailand flooding, we will also have to adjust our capital expenditures to replace the damaged equipment.

Our long-term liabilities, excluding long-term debt, consist of liabilities under our foreign defined benefit pension plans and contingent tax reserves. In regard to our foreign defined benefit pension plans, generally, our annual funding of these obligations is equal to the minimum amount legally required in each jurisdiction in which the plans operate. This annual amount is dependent upon numerous actuarial assumptions. See Note 12: “Employee Benefit Plans” of the notes to our audited consolidated financial statements included elsewhere in this report. For further discussion of our tax reserves, see Note 9: “Income Taxes” of the notes to our audited consolidated financial statements included elsewhere in this report.

Key Financing Events

Overview

For the past several years, we have undertaken various 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. These measures continued in 2011. Set forth below is a summary of certain key financing events affecting our capital structure during the last three years. For further discussion of financing events see Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this report.

2011 Financing Events

Senior Revolving Credit Facility

On December 23, 2011, we entered into a $325.0 million, five-year senior revolving credit facility (the “Facility”), the terms of which are set forth in a Credit Agreement dated as of December 23, 2011 (“Credit Agreement”) between us and a group of lenders. The new Facility includes $40.0 million availability for the issuance of letters of credit, $15.0 million availability for swingline loans for short-term borrowings and a foreign currency sublimit of $75.0 million. We have the ability to increase the size of the Facility from time-to-time in increments of $10.0 million so long as after giving effect to such increases, the aggregate amount of all such increases does not exceed $125.0 million.

Payments of the principal amounts of revolving loans under the Credit Agreement are due no later than December 23, 2016, which is the maturity date of the Facility. Interest is payable based on either a LIBOR or base rate option, plus an applicable rate that varies based on the total leverage ratio. We have also agreed to pay the lenders certain fees, including a commitment fee that varies based on the total leverage ratio. We may prepay loans under the Credit Agreement at any time, in whole or in part, upon payment of accrued interest and break funding payments, if applicable.

The obligations under the Facility are guaranteed by certain of our domestic subsidiaries and are secured by a pledge of the equity interests in certain of our domestic subsidiaries. We are also required to pledge certain of our equity interests in certain material first tier foreign subsidiaries within a specified time after closing.

The Credit Agreement contains affirmative and negative covenants that are customary for credit agreements of this nature. The negative covenants include, among other things, limitations on asset sales, mergers and acquisitions, indebtedness, liens, investments and transactions with affiliates. The Credit Agreement contains only two financial covenants: (i) a maximum total leverage ratio of consolidated total indebtedness to consolidated earnings before interest, taxes, depreciation and amortization (“consolidated EBITDA”) for the trailing four consecutive quarters of 3.75 to 1.00; and (ii) a minimum interest coverage ratio of consolidated EBITDA to consolidated interest expense for the trailing four consecutive quarters of 3.50 to 1.0.

The Credit Agreement includes customary events of default that include, among other things, non-payment defaults, inaccuracy of representations and warranties, covenant defaults, cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, ERISA defaults and a change of control default. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement. We were in compliance with the various covenants contained in the Credit Agreement as of December 31, 2011, and expect to remain in compliance with all covenants over the next twelve months.

We can utilize the borrowings under the Facility for areas such as general corporate purposes, working capital and acquisitions. To date, we have not borrowed under the Facility.

December 2011 Convertible Note Exchange

On December 15, 2011, we exchanged $198.6 million of our 2.625% Convertible Senior Subordinated Notes due 2026, for $198.6 million of 2.625% Convertible Senior Subordinated Notes due 2026, Series B. The notes bear interest at the rate of 2.625% 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, 2012. The effective interest rate of the notes is 5.25%. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by certain of our existing domestic subsidiaries.

The notes are convertible by holders into cash and shares of our common stock at a conversion rate of 95.2381 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 $10.50 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) on and after June 15, 2016. We determined that the conversion option based on a trading price condition meets the definition of a derivative, and should be bifurcated from the debt host and accounted for separately. However, the fair value of this feature was determined to be de minimis at the date of issuance, and we continue to evaluate the significance of this feature on a quarterly basis.

The notes will mature on December 15, 2026. Beginning December 20, 2016, 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, 2016, 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. Notwithstanding these conversion rate adjustments, these notes contain an explicit limit on the number of shares issuable upon conversion. Holders may require us to repurchase the notes for cash on December 15 of 2016 and 2021 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 specified 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, which 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 of our existing and future subordinated obligations. The notes will also be effectively subordinated to any of our subsidiaries' secured indebtedness to the extent of the value of the assets securing such indebtedness.

Acquisition Note Payable to SANYO Electric

In January 2011, SCI LLC, as borrower, and we, as guarantor, entered into a seven-year, unsecured loan agreement with SANYO Electric to finance a portion of the purchase price of the SANYO Semiconductor acquisition. The loan had an original principal amount of approximately $377.5 million and had a principal balance of $339.8 million as of December 31, 2011. The loan bears interest at a rate of 3-month LIBOR plus 1.75% per annum, and provides for quarterly interest and $9.4 million in principal payments, with the unpaid balance of $122.7 million due in January 2018.

2.625% Convertible Senior Subordinated Notes due 2026 Repurchase

During the year ended December 31, 2011, we repurchased $53.0 million in par value ($46.6 million of carrying value) of our 2.625% Convertible Senior Subordinated Notes due 2026 for $56.2 million in cash. The cash payment was allocated between the fair value of the liability component and the equity component of the convertible security.

2010 Financing Events

April 2010 Amended Indenture for Zero Coupon Convertible Senior Subordinated Notes due 2024

In April 2010, we unilaterally amended the Indenture for our Zero Coupon Convertible Senior Subordinated Notes due 2024. The amendments include:

- One additional opportunity to require us to repurchase the notes on April 15, 2012. The terms of this put option are otherwise identical to pre-existing terms of the notes whereby holders of the notes had the option to require us to purchase the notes on April 15, 2010; and
- Terms eliminating our ability to redeem the notes at our option from April 15, 2010 until April 15, 2012.

In accordance with the right of the holders of the notes to require us to purchase the notes on April 15, 2010, approximately $3.2 million of the $99.4 million par value of notes then outstanding were purchased by us. In accordance with ASC 470 — Debt, the amendment was considered a substantial modification for accounting purposes; therefore, the $96.2 million original remaining debt was deemed to be extinguished, resulting in a $0.1 million gain, and new convertible debt with fair value of $98.5 million was deemed to be issued.

May 2010 Prepayment of Senior Bank Facilities

In May 2010, we terminated our senior bank facilities by making a full prepayment of the $169.8 million aggregate principal amount outstanding under the term loan portion. This amount would have been due in September 2013, subject to scheduled principal amortization and other required prepayments under the senior bank facilities. We incurred no penalties in connection with this early termination.

The termination of the senior bank facilities also resulted in the termination of the $25.0 million of undrawn revolver and termination of certain ancillary agreements executed in connection with the senior bank facilities in August 1999 and amended over the years, including the pledge agreement, security agreement and guarantee agreement.

Pursuant to the pledge agreement, security agreement, and guarantee agreement, our obligations and the obligations of certain of our subsidiaries under the senior bank facilities and related documents were secured by a first lien on substantially all of our property and assets (tangible and intangible), including the capital stock of certain subsidiaries, and substantially all of the property and assets (tangible and intangible) of certain of our subsidiaries.

The termination of our senior bank facilities negatively impacted our liquidity, but provides additional financial and operational flexibility. Since the termination, we continue to generate strong free cash flow and we remain committed to improving the capital structure of the company and shareholder value. We regained this liquidity with the entry into our new senior revolving credit facility in December 2011, as described above.

We also service other loans. See Note 8: "Long-Term Debt" of the notes to our audited consolidated financial statements for further details relating to these loans.

Debt Instruments, Guarantees and Related Covenants

The following table presents the components of long-term debt as of December 31, 2011 and December 31, 2010 (dollars in millions):

	December 31, 2011	December 31, 2010
Senior Revolving Credit Facility (up to $325.0 million)	$ —	$ —
Loan with a Japanese company due 2012 through 2018, interest payable quarterly at 2.33%	339.8	—
Zero Coupon Convertible Senior Subordinated Notes due 2024 (net of discount of $2.0 million and $8.7 million, respectively) (1)	94.2	87.5
1.875% Convertible Senior Subordinated Notes due 2025 (net of discount of $6.6 million and $12.8 million, respectively) (2)	88.4	82.2
2.625% Convertible Senior Subordinated Notes due 2026 (net of discount of $24.5 million and $73.9 million, respectively) (3)	207.9	410.1
2.625% Convertible Senior Subordinated Notes due 2026, Series B (net of discount of $22.0 million) (4)	176.6	—
Loan with Hong Kong bank, interest payable weekly at 2.04% and 2.03%, respectively	40.0	40.0
Loans with Philippine banks due 2012 through 2015, interest payable monthly and quarterly at an average rate of 2.01% and 1.80%, respectively	68.2	68.8
Loans with Chinese banks due 2013, interest payable quarterly at an average rate of 4.44% and 4.23%, respectively	7.0	34.0
Loans with Japanese banks due through 2013, interest payable monthly and semi-annually at an average rate of 1.71% and 1.45%, respectively	3.5	3.9
Loan with Singapore bank, interest payable weekly at 1.97%	25.0	—
Loan with British finance company, interest payable monthly at 2.42% and 2.18%, respectively	13.1	13.8
U.S. real estate mortgages payable monthly through 2016 at an average rate of 4.86%	31.6	33.0
U.S. equipment financing payable monthly through 2015 at 3.23%	10.8	—
Capital lease obligations	100.9	115.5
Long-term debt, including current maturities	1,207.0	888.8
Less: Current maturities	(370.1)	(136.0)
Long-term debt	$ 836.9	$ 752.8

(1) The Zero Coupon Convertible Senior Subordinated Notes due 2024 may be put back to us at the option of the holders of the notes on April 15 of 2012, 2014 and 2019 or called at our option on or after April 15, 2012.

(2) The 1.875% Convertible Senior Subordinated Notes due 2025 may be put back to us at the option of the holders of the notes on December 15 of 2012, 2015 and 2020 or called at our option on or after December 20, 2012.

(3) The 2.625% Convertible Senior Subordinated Notes due 2026 may be put back to us at the option of the holders of the notes on December 15 of 2013, 2016 and 2021 or called at our option on or after December 20, 2013.

(4) The 2.625% Convertible Senior Subordinated Notes due 2026, Series B may be put back to us at the option of the holders of the notes on December 15 of 2016 and 2021 or called at our option on or after December 20, 2016.

Our Zero Coupon Convertible Senior Subordinated Notes due 2024, our 1.875% Convertible Senior Subordinated Notes due 2025, our 2.625% Convertible Senior Subordinated Notes due 2026 and our 2.625% Convertible Senior Subordinated Notes due 2026, Series B are subordinated to the senior indebtedness of ON Semiconductor Corporation and its Guarantor Subsidiaries (as defined in Note 18: "Guarantor and Non-Guarantor Statements" of the notes to our audited consolidated financial statements included elsewhere in this report) on the terms described in the indentures for such notes. As of December 31, 2011, we believe that we were in compliance with the indentures relating to our Zero Coupon Convertible Senior Subordinated Notes due 2024, our 1.875% Convertible Senior Subordinated Notes due 2025, our 2.625% Convertible Senior Subordinated Notes due 2026 and our 2.625% Convertible Senior Subordinated Notes due 2026, Series B and with covenants relating to our senior revolving credit facility and various other debt agreements. We believe that we will be able to comply with the various covenants and other requirements contained in such indentures and debt agreements through December 31, 2012.

Cash Management

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

Critical Accounting Policies and Estimates

The accompanying discussion and analysis of our financial condition and results of operations is based upon our audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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 OEMs, electronic manufacturing service providers and distributors. We also generate revenue, although to a much lesser extent, from manufacturing services provided to customers. Distributor revenue is recognized in various ways within the industry. Some recognize revenue upon sale to the distributor, while others, like us, recognize revenue when the sale is made to the end customer. Additionally, there can often be a lag in the data collection from distributors, which makes the calculation of revenue recognition challenging. Due to our high distributor sales, revenue recognition is a critical accounting policy. We recognize revenue on sales to OEMs and electronic manufacturing service providers and sales of manufacturing services, net of provisions for related sales returns and allowances, when persuasive evidence of an arrangement exists, title and risk of loss pass to the customer (which is generally upon shipment), the price is fixed or determinable and collectability is reasonably assured. Title to products sold to distributors typically passes at the time of shipment by us so we record accounts receivable for the amount of the transaction, reduce our inventory for the products shipped and defer the related margin in our consolidated balance sheet given our inability to reliably estimate up front the effect of the returns and allowances with these distributors. We recognize the related revenue and cost of revenues when the distributor informs us that it has resold the products to the end user. Inaccuracies in the sales or inventory data provided to us by our distributors can therefore result in inaccuracy in our reporting revenues. Although payment terms vary, most distributor agreements require payment within 30 days.

Taxes assessed by government authorities on revenue-producing transactions, including value added and excise taxes, are presented on a net basis (excluded from revenues) in the statement of operations.

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

We generally warrant that products sold to our customers will, at the time of shipment be free from defects in workmanship and materials and conform to our approved specifications. Subject to certain exceptions, our standard warranty extends for a period of two years. At the time revenue is recognized, we establish an accrual for estimated warranty expenses associated with our sales, recorded as a component of cost of revenues. In addition, we also offer cash discounts to customers for payments received by us within an agreed upon time, generally 10 days after shipment. We accrue reserves for cash discounts as a reduction to accounts receivable and a reduction to revenues, based on experience with each customer.

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

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

Inventory acquired in the purchase of a business is stated at the lower of cost or market. Upon the acquisition, we estimate the fair value of the inventory as of the acquisition date. The methodology involves stepping up the value of acquired finished goods and work-in-process to expected sales value less variable costs to dispose. For the year ended December 31, 2011, approximately $57.7 million of the initial $57.7 million in the inventory step-up for acquisitions has been charged to cost of goods sold on the statement of operations since the inventory was shipped to the customer, leaving no balances in inventory and inventories at distributors at December 31, 2011.

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. We maintain a valuation allowance for our domestic deferred tax assets and most of our foreign deferred tax assets. Additionally, throughout 2009, 2010 and 2011, no incremental domestic deferred tax benefits were recognized. As of December 31, 2011 and 2010, deferred tax assets and liabilities before valuation allowances were $1,619.2 million and $558.3 million, respectively, and the deferred tax asset valuation allowance was $1,626.1 million and $560.8 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 exist, 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. The second step of the 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. We perform our annual impairment analysis as of the first day of the fourth quarter of each year. We determine the fair value of each reporting unit using the income approach, which is based on the present value of estimated future cash flows, using management's assumptions and forecasts as of the acquisition date. Our methodologies used for valuing goodwill have not changed.

We have determined that our product families, which are components of our operating segments, constitute reporting units for purposes of allocating and testing goodwill. Because the product families are one level below the operating segments, they constitute individual businesses and our segment management regularly reviews the operating results of each product family. As of each acquisition date, all goodwill acquired was assigned to the product families that were expected to benefit from the synergies of the respective acquisition. The amount of goodwill assigned to each reporting unit was the difference between the fair value of the reporting unit and the fair value of identifiable assets and liabilities allocated to the reporting unit as of the acquisition date.

Our next annual test for impairment is expected to be performed on the first day of the fourth quarter of 2012; however, identification of a triggering event may result in the need for earlier reassessments of the recoverability of our goodwill and may result in material impairment charges in future periods.

Defined Benefit Plans and related benefits. As discussed in Note 4: "Acquisitions" in the notes to the audited consolidated financial statements included elsewhere in this Form 10-K, we assumed $48.8 million of underfunded pension obligations relating to certain defined benefit plans maintained by SANYO Semiconductor. Additionally, we recorded $144.9 million of estimated liabilities associated with our estimated portion of underfunded pension obligations relating to certain employees participating in the SANYO Electric or its affiliate multi-employer defined benefit pension plans, from which we intend to withdraw.

We maintain defined benefit pension plans covering certain of our foreign employees. For financial reporting purposes, net periodic pension costs and estimated withdrawal liabilities 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. As of December 31, 2011, 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 $27.0 million.

Contingencies. We are involved in a variety of legal matters that arise in the normal course of business. Based on the available information, we evaluate the relevant range and likelihood of potential outcomes and we record the appropriate liability when the amount is deemed probable and estimable.

Valuation of Stock Compensation. The fair value of each option grant is estimated on the date of grant using a lattice-based option valuation model. The lattice model uses: 1) a constant volatility; 2) an employee exercise behavior model (based on an analysis of historical exercise behavior); and 3) the treasury yield curve to calculate the fair value of shares issued for each option grant. We continue to use the Black-Scholes option-pricing model to calculate the fair value of shares issued under the 2000 Employee Stock Purchase Plan.

New Accounting Pronouncements

For a discussion of new accounting pronouncements, see Note 5: "New Accounting Pronouncements" of the notes to our audited consolidated financial statements included elsewhere in this report.

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, 2011, our long-term debt (including current maturities) totaled $1,207.0 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $712.0 million. We do have interest rate exposure with respect to the $495.0 million balance on our variable interest rate debt outstanding as of December 31, 2011. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next twelve months by approximately $2.5 million. However, some of this impact would be offset by additional interest earned on our cash and cash equivalents should rates on deposits and investments also increase.

To ensure the adequacy and effectiveness of our foreign exchange hedge positions, we continually monitor our foreign exchange forward positions, both on a stand-alone basis and in conjunction with their underlying foreign currency exposures, from an accounting and economic perspective. However, given the inherent limitations of forecasting and the anticipatory nature of exposures intended to be hedged, we cannot assure that such programs will offset more than a portion of the adverse financial impact resulting from unfavorable movements in foreign exchange rates.

We are subject to risks associated with transactions that are denominated in currencies other than our functional currencies, as well as the effects of translating amounts denominated in a foreign currency to the United States Dollar as a normal part of the reporting process. Our Japanese operations utilize Japanese Yen as the functional currency, which results in the Company recording a translation adjustment that is included as a component of accumulated other comprehensive income. With the acquisition of SANYO Semiconductor, we have increased our revenue, expense and capital purchases in Japanese Yen, thus increasing the effects of this translation.