statements of operations and comprehensive income. See Note 3: "Goodwill and Intangible Assets" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information on goodwill and intangible asset impairments.

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" included elsewhere in this Form 10-K.

Executive Overview

This executive overview presents summary information regarding our industry, markets, business and operating trends only. For further information relating to the information summarized herein, see 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 $291.6 billion in 2012, a decrease of approximately 2.6% from $299.5 billion in 2011. 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 market in the areas we provide semiconductor components. The following table sets forth total worldwide semiconductor industry revenues and revenues in our serviceable addressable market since 2008:

Year Ended December 31,	Worldwide Semiconductor Industry Sales (1) (in billions)	Percentage Change	Serviceable Addressable Market Sales (1) (2) (in billions)	Percentage Change
2012	$ 291.6	(2.6)%	$ 103.7	(3.4)%
2011	$ 299.5	0.4%	$ 107.4	(2.5)%
2010	$ 298.3	31.8%	$ 110.2	28.7%
2009	$ 226.3	(9.0)%	$ 85.6	27.6%
2008	$ 248.6	(2.7)%	$ 67.1	10.4%

(1) Based on shipment information published by WSTS. WSTS collects this information based on product shipments, which differs from how we recognize revenue on shipments to certain distributors as described in "Significant Accounting Policies—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 Serviceable Addressable Market ("SAM") 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, VREGs and references, comparators, ASSP consumer, ASSP computer, ASSP automotive and ASSP industrial and others); (c) standard logic products (general purpose logic); (d) Standard Product logic (consumer other, computer other peripherals, wired communications, automotive and industrial); (e) CMOS image sensors; (f) memory; (g) microcontrollers; and (h) motor control modules. Our SAM is derived using the most recent information available at the time of the filing of each respective period's annual report and is revised in subsequent periods to reflect final results.

Worldwide semiconductor industry sales declined 2.7% in 2008, declined 9.0% in 2009, grew 31.8% in 2010, grew 0.4% in 2011 and declined 2.6% in 2012, following a pattern associated with the financial crisis, subsequent recovery and persistent economic uncertainty. The decrease of 2.6% from 2011 to 2012 is related to global macroeconomic conditions within the semiconductor industry affecting sales in all geographic regions. Sales in our SAM grew 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 SAM increased to $85.6 billion in 2009, to $110.2 billion in 2010, decreased to $107.4 billion in 2011, and decreased to $103.7 billion in 2012. The decrease of approximately 3.4% from $107.4 billion in 2011 to $103.7 billion in 2012 is consistent with the trend in the worldwide semiconductor market. The most recently published estimates of WSTS project a compound annual growth rate in our SAM of approximately 4.1% 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, 2012 were $2,894.9 million, a decrease of approximately 15.9% from $3,442.3 million for the year ended December 31, 2011, the majority of which was due to lower revenues generated from our SANYO Semiconductor Products Group and a weakened demand environment associated with less favorable global economic conditions. During 2012, we reported a net loss of $90.6 million compared to net income of $11.6 million in 2011. Our gross margin increased by approximately 360 basis points to 32.9% in 2012 from 29.3% in 2011, primarily due to an absence of $138.7 million in expenses related to our SANYO Semiconductor Products Group that were recorded in 2011, which did not reoccur in 2012.

During 2012, we recognized $165.3 million in restructuring and asset impairment charges. The majority of our restructuring and cost saving initiatives were focused on our SANYO Semiconductor Products Group. The SANYO Semiconductor Products Group experienced revenue and financial performance declines greater than our expectations and the cyclical declines in our other operating segments. These declines were a result of a combination of factors which included the continued impact from the October 2011 Thailand flooding, which permanently damaged one of our SANYO Semiconductor Products Group’s manufacturing locations, a softening of the Japanese consumer market, and, to a lesser extent, political tensions between Japan and China, which began to impact our revenue levels in the second half of 2012. During 2012, we completed a significant reduction in workforce in the SANYO Semiconductor Products Group to help partially offset these revenue declines and recorded $35.9 million of related net restructuring charges for this program. However, these revenue and performance declines continued into the second half of the year, which caused us to re-evaluate the long-term projections and related incremental costs expected to be incurred in order to achieve acceptable operating results for the SANYO Semiconductor Products Group. As a result of these collective factors, in the fourth quarter of 2012, we determined that it was necessary to evaluate the recoverability of the long-lived assets of the segment. This evaluation concluded that an impairment charge of $126.0 million was required to adjust the carrying value of the long-lived assets to their respective fair values. Additionally, in the first quarter of 2013 we initiated another voluntary retirement program for the SANYO Semiconductor Products Group to achieve further costs savings and align expenses to our expected revenue levels for the segment. For further information on the 2013 voluntary retirement program, see Note 20: “Subsequent Events” of the notes to the audited consolidated financial statements located elsewhere in this Form 10-K.

For further information on restructuring activity, including our other restructuring and cost savings programs initiated during 2012, see Note 6: “Restructuring, Asset Impairments, and Other, net” of the notes to the audited consolidated financial statements located elsewhere in this report.

Outlook

ON Semiconductor Q1 2013 Outlook

Based upon product booking trends, backlog levels, and estimated turns levels, we estimate that our revenues will be approximately $645 million to $685 million in the first quarter of 2013. Backlog levels for the first quarter of 2013 represent approximately 80% to 85% of our anticipated first quarter 2013 revenues. We estimate average selling prices for the first quarter of 2013 will be down approximately 2% compared to the fourth quarter of 2012. For the first quarter of 2013, we estimate that gross margin as a percentage of revenues will be approximately 30.5% to 32.5%.

Business Overview

We are driving innovation in 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, DSP, 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 caused demand to strengthen, production volumes have historically stabilized and then grown again. As market unit demand reaches levels above capacity production capabilities, shortages begin to occur, which typically causes 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

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.

Business and Macroeconomic Environment Influence on Cost Savings and Restructuring Activities

The semiconductor industry has traditionally been highly cyclical and has often experienced economic contractions in connection with, or in anticipation of, declines in general economic conditions. We believe the business environment continues to experience significant economic uncertainty and volatility, which has contributed to the current market weakness in our industry. These factors combined with other events, including the impact of the March 2011 Japan earthquake and resulting tsunami, the October 2011 flooding in Thailand and the heightened political and economic tensions between Japan and China, have either impacted us directly or have affected our customers and suppliers, which in turn has affected our business, including sales, production capacity, and results of operations for both our SANYO Semiconductor Products Group and other reporting segments. Although we regard certain of these issues as temporary, our continuing outlook 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.

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.

We have taken significant actions during 2012 to align our overall cost structure with our expected revenue levels. In addition to the actions executed in 2012, as revenue and operating results have declined more than anticipated, we intend to implement further cost reduction measures in 2013 related to our SANYO Semiconductor Products Group, including a voluntary retirement program for certain of our SANYO Semiconductor Products Group subsidiaries, which is expected to reduce the employment levels at these subsidiaries by approximately 500 to 600 employees. Furthermore, we are continuing to review our capital investments and other expenditures to align our spending and capacity with our current sales and manufacturing projections. See Note 6: “Restructuring, Asset Impairments, and Other, net” and Note 20: “Subsequent Events” of the notes to our audited consolidated financial statements included elsewhere in this report for further discussion of certain details relating to our recent cost saving actions.

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, 2012, 2011 and 2010 (in millions):

	Year ended December 31,			Dollar Change	
	2012	2011	2010	2011 to 2012	2010 to 2011
Revenues	$2,894.9	$3,442.3	$2,313.4	$ (547.4)	$ 1,128.9
Cost of revenues	1,943.0	2,433.5	1,357.4	(490.5)	1,076.1
Gross profit	951.9	1,008.8	956.0	(56.9)	52.8
Operating expenses:					
Research and development	367.5	362.5	248.0	5.0	114.5
Selling and marketing	180.9	195.1	145.6	(14.2)	49.5
General and administrative	160.6	192.4	129.9	(31.8)	62.5
Amortization of acquisition-related intangible assets	44.4	42.7	31.7	1.7	11.0
Restructuring, asset impairments and other, net	165.3	102.7	10.5	62.6	92.2
Goodwill and intangible asset impairment	49.5	—	16.1	49.5	(16.1)
Total operating expenses	968.2	895.4	581.8	72.8	313.6
Operating income (loss)	(16.3)	113.4	374.2	(129.7)	(260.8)

	Year ended December 31,			Dollar Change	
	2012	2011	2010	2011 to 2012	2010 to 2011
Other income (expenses), net:					
Interest expense	(56.1)	(68.9)	(61.4)	12.8	(7.5)
Interest income	1.5	1.1	0.5	0.4	0.6
Other	5.8	(8.9)	(6.9)	14.7	(2.0)
Loss on debt repurchase or exchange	(7.8)	(23.2)	(0.7)	15.4	(22.5)
Gain on SANYO Semiconductor acquisition	—	24.3	—	(24.3)	24.3
Other income (expenses), net	(56.6)	(75.6)	(68.5)	19.0	(7.1)
Income (loss) before income taxes	(72.9)	37.8	305.7	(110.7)	(267.9)
Income tax provision	(13.4)	(22.9)	(12.8)	9.5	(10.1)
Net income (loss)	(86.3)	14.9	292.9	(101.2)	(278.0)
Less: Net income attributable to non-controlling interest	(4.3)	(3.3)	(2.4)	(1.0)	(0.9)
Net income (loss) attributable to ON Semiconductor Corporation	$(90.6)	$ 11.6	$290.5	$(102.2)	$(278.9)

Revenues

Revenues were $2,894.9 million, $3,442.3 million and $2,313.4 million for 2012, 2011 and 2010, respectively. The decrease from 2011 to 2012 was most pronounced in our SANYO Semiconductor Products Group with our other operating segments experiencing revenue declines as a result of a weakened demand environment associated with less favorable global economic conditions, as previously discussed. Our SANYO Semiconductor Products Group was impacted by the continued effects of the October 2011 Thailand flood, a softening of the Japanese consumer market, and, to a lesser extent, political tensions between Japan and China which began to impact revenue levels in the second half of 2012.

For the year ended December 31, 2012, we experienced changes in volume and mix, which resulted in a decrease of approximately 11.2%, as well as a decline in average selling prices of approximately 4.7% as compared to 2011.

The increase in revenues from 2010 to 2011 was due to revenues generated from the 2011 acquisition of our SANYO Semiconductor Products Group combined with increases in revenue of $68.6 million from our Application Products Group and Standard Products Group, excluding the effects of certain acquisitions. Revenues from our Application Products Group and Standard Products Group improved due to a 6.2% increase from volume and changes in mix, which was partially offset by a 2.0% decrease in average selling prices.

We changed our organizational structure during the fourth quarter of 2012 and previously reported information has been recast to reflect our current organizational structure. See Note 17: “Segment Information” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for a further discussion regarding our reportable segments. Revenues by reportable segment for each of the three years below, were as follows (dollars in millions):

	Year Ended December 31, 2012	As a % of Revenue (1)	Year Ended December 31, 2011	As a % of Revenue (1)	Year Ended December 31, 2010	As a % of Revenue (1)
Application Products Group	$ 1,019.2	35.2%	$ 1,145.5	33.3%	$ 1,053.2	45.5%
Standard Products Group	1,104.7	38.2%	1,236.5	35.9%	1,260.2	54.5%
SANYO Semiconductor Products Group	771.0	26.6%	1,060.3	30.8%	—	—
Total revenues	$ 2,894.9		$ 3,442.3		$ 2,313.4	

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

Revenues from the Application Products Group decreased by $126.3 million or approximately 11% from 2011 to 2012 and increased from 2010 to 2011 by $92.3 million or approximately 9%. The 2012 decrease in revenue can be attributed to a decrease in revenue from ASIC products of $70.9 million or approximately 11%, a decrease in revenue from analog products of $20.3 million or approximately 5% and a decrease in foundry services revenue of $13.4 million or approximately 49%, with the remainder of the decrease primarily associated with our high-frequency products. In 2011, the increase in revenue is attributed to $50.3 million in revenues from products related to the ISBU and SDT acquisitions, as well as an increase of approximately 7% in revenues from 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 approximately 14%, which was driven by lower demand in industrial and networking end-markets.

Revenues from the Standard Products Group decreased by $131.8 million or approximately 11% from 2011 to 2012 and decreased from 2010 to 2011 by $23.7 million or approximately 2%. The 2012 decrease in revenue is primarily attributable to decreases in discrete products of $74.1 million or approximately 15%, a decrease in analog products revenue of $28.1 million or approximately 9%, and a decrease in revenue from memory products of $25.1 million or approximately 31% with the remaining decrease primarily associated with our TMOS products. In 2011, the decrease in revenue is a result of decreases of approximately 10% in revenue from our analog standard products and a decrease in revenue of approximate 2% from TMOS standard products.

Revenues from the SANYO Semiconductor Products Group decreased by $289.3 million or approximately 27% from 2011 to 2012 due to the continued impact from the October 2011 Thailand flooding, which permanently damaged one of our SANYO Semiconductor Products Group's manufacturing locations, a softening of the Japanese consumer market, and, to a lesser extent, political tensions between Japan and China which began to impact revenue levels in the second half of 2012.

Revenues from the SANYO Semiconductor Products Group were $1,060.3 million million during 2011. These revenues are the result of our January 1, 2011 SANYO Semiconductor Transaction.

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

	Year Ended December 31, 2012	As a % of Revenue	Year Ended December 31, 2011	As a % of Revenue (1)	Year Ended December 31, 2010	As a % of Revenue (1)
Americas	$ 467.0	16.1%	$ 560.6	16.3%	495.5	21.4%
Japan	401.2	13.9%	494.8	14.4%	59.5	2.6%
Other Asia/Pacific	1,637.9	56.6%	1,958.4	56.9%	1,384.7	59.9%
Europe	388.8	13.4%	428.5	12.4%	373.7	16.2%
Total	$ 2,894.9		$ 3,442.3		$ 2,313.4	

(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 Form 10-K.

With our acquisition of SANYO Semiconductor in 2011, there has been a shift in our global revenues to the Japan and Asia/Pacific regions, with combined revenues from these regions totaling $2,039.1 million in 2012 and $2,453.2 million in 2011 for approximately 70% of our total revenues in 2012 and approximately 71% of our total revenues in 2011, which, following our acquisition of SANYO Semiconductor, has increased from approximately 62% of total revenues from the same region in 2010.

Gross Profit

Our gross profit by reportable segment in each of the three years below was as follows (dollars in millions):

	Year Ended December 31, 2012	As a % of Segment Revenue (2)	Year Ended December 31, 2011	As a % of Segment Revenue (2)	Year Ended December 31, 2010	As a % of Segment Revenue (2)
Application Products Group	$ 459.2	45.1%	$ 549.0	47.9%	$ 532.0	50.5%
Standard Products Group	400.9	36.3%	435.7	35.2%	479.8	38.1%
SANYO Semiconductor Products Group	143.1	18.6%	79.1	7.5%	—	—
Gross profit by segment	$ 1,003.2		$ 1,063.8		$ 1,011.8	
Unallocated						
Manufacturing (1)	(51.3)	(1.8)%	(55.0)	(1.6)%	(55.8)	(2.4)%
Total gross profit	$ 951.9	32.9%	$ 1,008.8	29.3%	956.0	41.3%

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

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

Our gross profit was $951.9 million, $1,008.8 million and $956.0 million for the years ended December 31, 2012, 2011 and 2010. The gross profit decrease of $56.9 million or approximately 6% for the year ended December 31, 2012 compared to 2011 is primarily attributable to decreases in gross profit in our Application Products Group and Standard Products Group, partially offset by a $64.0 million increase in gross profit for our SANYO Semiconductor Products Group largely due to charges incurred during 2011 for the step-up in fair market value of inventory and non-cash manufacturing expenses which were not incurred during 2012.

The gross profit increase from 2010 to 2011 is primarily attributable to the SANYO Semiconductor Transaction and an increase in our Application Products Group 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. The increase was partially offset by decreases in the Standard Products Group as sales mix and volume improvements during 2011 were outpaced by selling price declines.

Gross margin increased to approximately 32.9% during 2012 compared to approximately 29.3% during 2011. This increase is related to the increase in gross profit from our SANYO Semiconductor Products Group. The increase in gross profit is a direct result of certain expenses which we recorded during 2011 and for which we did not incur expenses in 2012. The 2011 expenses included the following: (i) the impact of the step-up in fair market value of inventory of $58.3 million; and (ii) $80.4 million of non-cash manufacturing expenses. Gross margin was also impacted by cost savings from our restructuring activities, as discussed below, further offset by volume and revenue declines.

The decrease in gross margin as a percentage of revenues from 2010 to 2011 was primarily due to lower gross margin from our SANYO Semiconductor Products Group, which included charges associated with our acquisition of SANYO Semiconductor. For the Application Products Group and Standard Products Group, 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.

Operating Expenses

Research and development expenses were $367.5 million, $362.5 million and $248.0 million representing approximately 12.7%, 10.5% and 10.7% of revenues for the years ended December 31, 2012, 2011 and 2010, respectively. Research and development expenses increased by $5.0 million or approximately 1.4% from 2011 to 2012. This increase is due to increased costs related to the usage of engineering materials and depreciation for new capital projects and design software. The increase from 2010 to 2011 was primarily attributed to increased expenses associated with research and development activities associated with our SANYO Semiconductor Transaction, combined with an increase in head count during 2011 as compared to 2010.

Selling and marketing expenses were $180.9 million, $195.1 million and $145.6 million representing approximately 6.2%, 5.7% and 6.3% of revenues for the years ended December 31, 2012, 2011 and 2010, respectively. The decrease of $14.2 million or approximately 7.3% from 2011 to 2012 is primarily attributable to planned reductions in workforce, reductions in bonus and share-based compensation expenses, reduced travel costs, and a reduction in outside services. The increase from 2010 to 2011 was primarily attributed to increased expenses associated with our on-going sales and marketing activities in connection with our acquisition of SANYO Semiconductor in 2011, combined with an increase in head count during 2011 as compared to 2010.

General and administrative expenses were $160.6 million, $192.4 million and $129.9 million representing approximately 5.5%, 5.6% and 5.6% of revenues for the years ended December 31, 2012, 2011 and 2010, respectively. The decrease of $31.8 million or approximatively 16.5% from 2011 to 2012 is primarily attributable to reductions in outside services and reductions in the use of consultants, along with the impact of reduced bonus, decreased share-based compensation expenses and lower royalty expenses. The increase from 2010 to 2011 was primarily attributed to increased expenses associated with our on-going general and administrative activities in connection with our acquisition of SANYO Semiconductor in 2011, combined with an increase in head count during 2011 as compared to 2010.

Other Operating Expenses

Amortization of Acquisition—Related Intangible Assets

Amortization of acquisition-related intangible assets was $44.4 million, $42.7 million and $31.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. The increase of $1.7 million or approximately 4.0% from 2011 to 2012 was primarily attributed to increased amortization resulting from completed IPRD projects assumed as part of our recent acquisitions, which were not amortized while in-process and for which 2012 was the first full year of amortization upon the completion of the associated projects. 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.

Restructuring

Restructuring, asset impairments and other, net was $165.3 million, $102.7 million and $10.5 million for the years ended December 31, 2012, 2011 and 2010, 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 Form 10-K.

2012

During the year ended December 31, 2012, we initiated a voluntary retirement program for employees of SANYO Semiconductor and certain of its subsidiaries. We recorded net charges of approximately $35.9 million associated with this program, consisting of employee severance charges of $47.6 million, partially offset by $11.7 million attributed to pension plan curtailment gains.

Additionally, during the year ended December 31, 2012, we executed a global headcount reduction program. Restructuring expenses resulting from this program consisted primarily of $11.2 million associated with employee severance charges.

We incurred additional charges related to the closure of certain of our facilities during 2012. See Note 6: “Restructuring, Asset Impairments and Other, net” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information on restructuring activity.

2011

During the year ended December 31, 2011, we recorded $5.7 million of employee separation charges and other charges associated with the closure of our Ayutthaya, Thailand facility and partial closure of our Bang Pa In, Thailand facility in addition to $8.5 million of employee separation charges and other costs associated with the planned shutdown of operations at our facility in Aizu, Japan.

As part of the SANYO Semiconductor Transaction, we 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.

2010

During the year ended December 31, 2010, we recorded $3.5 million of employee separation costs and $0.1 million of exit costs associated with our acquisition of CMD and $2.2 million of employee separation charges associated with our acquisition of SDT.

See Note 6: "Restructuring, Asset Impairments and Other, net" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information on 2012 restructuring activities.

Indefinite and Long-Lived Asset Impairment Charges

2012

During the fourth quarter of 2012, we evaluated the current period operating results of the SANYO Semiconductor Products Group and re-assessed future projections for the segment. As a result, we determined that $94.4 million of carrying value for certain long-lived assets associated with the SANYO Semiconductor Products Group and $31.6 million of related intangible assets were impaired. See Note 6: "Restructuring, Asset Impairments and Other, net" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for a complete discussion of factors influencing the SANYO Semiconductor Products Group impairments and See Note 3: "Goodwill and Intangible Assets" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information on the related intangible asset impairments.

During the fourth quarter of 2012, we determined that approximately $14.1 million in carrying value of goodwill relating to our 2008 acquisition of Catalyst was impaired resulting from a strategic decision to invest in other business units and the resulting decline in estimated future cash flows. As part of our annual goodwill testing, it was determined that certain intangible assets associated with the Standard Products Group were impaired. In connection with this impairment, we wrote-off approximately $3.8 million of intangible assets. These goodwill and intangible asset impairment charges were recognized in our Standard Products Group segment. See Note 3: "Goodwill and Intangible Assets" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

See Note 6: "Restructuring, Asset Impairments and Other, net" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information on other asset impairment activity.

2011

During the year ended December 31, 2011, we recorded $24.8 million of asset impairment charges associated with the closure of our Ayutthaya, Thailand facility and partial closure of our Bang Pa In, Thailand facility due to flooding that occurred in that region. Additionally, we recorded a $28.3 million inventory write-off as a result of the flooding in the region. The asset impairment charges and inventory write-off were partially offset by the receipt of insurance recoveries for $48.9 million.

During the year ended December 31, 2011, we recorded $61.5 million of asset impairment charges associated with the announced shutdown of our Aizu, Japan wafer manufacturing facility and $4.8 million of other charges relating to damaged inventory and other assets resulting from the Japanese earthquake and tsunami that occurred during 2011.

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See Note 6: “Restructuring, Asset Impairments and Other, net” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

2010

During the year ended December 31, 2010, we determined that, based on a decline in the business outlook, $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. The 2010 impairment charges were recognized in the Application Products Group segment. See Note 3: “Goodwill and Intangible Assets” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

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. See Note 6: “Restructuring, Asset Impairments and Other, net” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

Operating Income

Information about operating income from our reportable segments for the years ended December 31, 2012, December 31, 2011 and December 31, 2010 is as follows (in millions):

	Application Products Group	Standard Products Group	SANYO Semiconductor Products Group	Total
For year ended December 31, 2012:				
Segment operating income (loss)	$ 111.2	$ 240.0	$ (91.8)	$259.4
For year ended December 31, 2011:				
Segment operating income (loss)	$ 190.8	$ 254.6	$ (159.4)	$286.0
For year ended December 31, 2010:				
Segment operating income	$ 197.1	$ 301.0	$ —	$498.1

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, 2012	December 31, 2011	December 31, 2010
Operating income for reportable segments	$ 259.4	$ 286.0	$ 498.1
Unallocated amounts:			
Restructuring, asset impairments and other charges, net	(165.3)	(102.7)	(10.5)
Goodwill and intangible asset impairment	(49.5)	—	(16.1)
Other unallocated manufacturing costs	(51.3)	(55.0)	(55.8)
Other unallocated operating expenses	(9.6)	(14.9)	(41.5)
Operating income (loss)	$ (16.3)	$ 113.4	$ 374.2

Other unallocated operating expenses were $9.6 million, $14.9 million and $41.5 million in 2012, 2011 and 2010, respectively. These consecutive decreases are due to the expenses associated with changes in certain corporate decisions and initiatives which do not impact expenses that are directly attributable to our reporting segments.

Interest Expense

Interest expense decreased by $12.8 million from $68.9 million in 2011 to $56.1 million in 2012. Additionally, interest expense increased by $7.5 million from $61.4 million in 2010 to $68.9 million in 2011. We recorded amortization of debt discount to interest expense of $23.5 million, $34.9 million and $33.7 million for 2012, 2011 and 2010, respectively. Our average long-term debt balance (including current maturities and net of debt discount) during 2012, 2011 and 2010, was $1,109.5 million, $1,048.0 million and $911.2 million, respectively. Our weighted average interest rate on long-term debt (including current maturities and net of debt discount) was 5.1%, 6.6% and 6.7% per annum in 2012, 2011 and 2010, respectively. See "Liquidity and Capital Resources—Key Financing and Capital Events" below for a description of our refinancing activities.

Other

Other expense decreased by $14.7 million from a loss of $8.9 million in 2011 to a gain of $5.8 million in 2012. The change from 2011 to 2012 is primarily attributable to certain foreign exchange movements on the net underlying exposures that have no offsetting hedge positions. Other expense decreased by $2.0 million from a loss of $6.9 million in 2010 to a loss of $8.9 million in 2011. The change from 2010 to 2011 is primarily attributable to the strength of foreign currencies against the U.S. dollar for the periods presented, net of the impact from our hedging activities.

Loss on Debt Repurchase or Exchange

2012

During the year ended December 31, 2012, we exchanged $99.9 million in par value ($92.8 million of carrying value) of our 2.625% Convertible Senior Subordinated Notes due 2026 for $99.9 million in par value of 2.625% Convertible Senior Subordinated Notes due 2026, Series B and $2.0 million in cash, which resulted in a loss on debt exchange of $7.8 million. This exchange extended the first put date of the underlying notes, which we consider to be the earliest maturity date.

2011

During the year ended December 31, 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. This exchange extended the first put date of the underlying notes, which we consider to be the earliest maturity date.

Additionally, 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, which resulted in a loss on debt repurchase of $5.3 million.

2010

During the year ended December 31, 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.

For a further discussion of losses incurred on debt repurchases or exchanges, 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 Transaction

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 during 2011. We believe the gain recognized upon acquisition was the result of a number of factors, including the following: SANYO Electric's desire to discontinue semiconductor operations, significant losses recognized by SANYO Electric, SANYO Electric considering an acquisition as the best outcome for SANYO Semiconductor and that significant costs were expected to be incurred in association with the transfer and consolidation of certain operations. For further discussion of the gain on the SANYO Semiconductor Transaction see Note 4: “Acquisitions” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

Provision for Income Taxes

The provision for income taxes was $13.4 million, $22.9 million and $12.8 million in 2012, 2011 and 2010, respectively.

The 2012 provision of $13.4 million included $21.7 million for income and withholding taxes of certain of our foreign operations and $0.9 million of interest on existing reserves for potential liabilities in foreign taxing jurisdictions. This is partially offset by $7.8 million of additional tax benefit recorded and the reversal of $1.4 million for reserves and interest for potential liabilities in foreign taxing jurisdictions which were effectively settled or for which the statute lapsed during 2012.

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.

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 earnings being higher than anticipated in countries that have higher tax rates. Our effective tax rate for the year ended December 31, 2012 was negative 18.4%, which differs from the U.S. statutory federal income tax rate of 35%, due to our domestic tax losses and tax rate differential in our foreign subsidiaries. Our effective tax rate was higher than the U.S. statutory federal income tax rate for the year ended December 31, 2011 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 higher than the U.S. statutory federal income tax rate for the year ended December 31, 2010, 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 and Japan related deferred tax assets.

Income taxes have not been provided on approximately $1,291.6 million of the undistributed earnings of our foreign subsidiaries at December 31, 2012 over which we have sufficient influence to control the distribution of such earnings and have determined that substantially all such earnings have been reinvested indefinitely. These earnings could become subject to either or both federal income tax and foreign withholding tax if they are remitted as dividends, if foreign earnings are loaned to any of our domestic companies, or if we sell our investment in certain subsidiaries. We estimate that repatriation of these foreign earnings would generate additional foreign withholding taxes of approximately $7.6 million, U.S. federal income taxes of approximately $54.0 million and state income taxes of approximately $4.2 million, each after the assumed utilization of our available net operating loss carryforwards and foreign tax credits.

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.

Contractual Obligations

Our principal outstanding contractual obligations relate to our long-term debt, capital leases, operating leases and purchase obligations. The following table summarizes our contractual obligations at December 31, 2012 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)	Total	2013	2014	2015	2016	2017	Thereafter
Long-term debt, excluding capital leases (2)	$1,021.9	$342.8	$ 72.8	$ 77.5	$375.1	$31.1	$ 122.6
Capital leases (2)	95.8	43.1	38.0	9.7	2.3	0.9	1.8
Operating leases (3)	125.6	23.4	19.1	15.1	13.3	12.1	42.6
Purchase obligations (3):							
Capital purchase obligations	63.0	44.0	10.7	7.0	1.3	—	—
Inventory purchase obligations	137.3	85.3	10.9	10.5	7.9	6.2	16.5
Mainframe support	5.8	5.8	—	—	—	—	—
Information technology and communication services	15.6	9.7	3.2	2.2	0.5	—	—
Other	23.5	15.1	4.9	3.5	—	—	—
Total contractual obligations	$1,488.5	$569.2	$159.6	$125.5	$400.4	$50.3	$ 183.5

(1) The table above excludes approximately $21.9 million of liabilities related to unrecognized tax benefits because we are unable to reasonably estimate the timing of the settlement of such liabilities.

(2) Includes interest payments at applicable rates as of December 31, 2012.

(3) 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).

This table also excludes our pension obligations. We expect to make cash contributions and future pension payments to comply with local funding requirements of approximately $27.4 million in 2013. This future payment estimate assumes we continue to meet our statutory funding requirements. The timing and amount of contributions may be impacted by a number of factors, including the funded status of the plans. Beyond 2013, the actual amounts required to be contributed are dependent upon, among other things, interest rates, underlying asset returns and the impact of legislative or regulatory actions related to pension funding obligations.

See Note 12: "Employee Benefit Plans" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for more information on our pension obligations.

Our balance of cash, cash equivalents and short-term investments was $631.7 million at December 31, 2012. We believe that our cash flows from operations, coupled with our existing cash, 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, 2012 include approximately $360.0 million available in the United States. In addition to cash, cash equivalents and short-term investments already on hand in the United States, we have the ability to access 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.

In connection with the SANYO Semiconductor Transaction, SANYO Electric agreed to provide certain operational support to SANYO Semiconductor for a period of time relating to costs, expenses and other amounts associated with seconded employees, transition services and certain property leases. This operational support ended on December 31, 2012. While we have continued to take steps to reduce the cost structure of our SANYO Semiconductor Products Group, the expiration of this operational support is expected to directly impact the margin levels of the SANYO Semiconductor Products Group.

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.

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. Our senior revolving credit facility includes a $40.0 million availability for the issuance of letters of credit. A $0.2 million letter of credit was outstanding under our senior revolving credit facility as of December 31, 2012. We also had outstanding guarantees and letters of credit outside of our senior revolving credit facility of $5.9 million at December 31, 2012.

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 $84.1 million as of December 31, 2012. We are also a guarantor of SCI LLC's unsecured loan with SANYO Electric which had a balance of $302.0 million as of December 31, 2012. See Note 8: "Long-Term Debt" of the notes to our audited consolidated financial statements found elsewhere in this Form 10-K for additional information.

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.

For our operating leases, we expect to make cash payments and similarly incur expenses totaling $120.6 million as payments come due. We have not recorded any liability in connection with these operating leases, letters of credit and guarantee arrangements. See Note 15: "Commitments and Contingencies" of the notes to our audited consolidated financial statements found elsewhere in this Form 10-K for additional information.

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 IP infringement, property damage including environmental contamination, personal injury, failure to comply with applicable laws, our negligence or willful misconduct, or breach of representations and warranties and covenants related to such matters as title to sold assets.

We 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.

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 included elsewhere 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 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 and short-term investments 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. During 2012, we paid $256.3 million for capital expenditures, while in 2011 we paid $316.4 million. Our current projection for capital expenditures in 2013 is approximately $160 million to $170 million, of which our current minimum commitment is approximately $44 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 under "Key Financing and Capital Events—2011 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 (in millions):

	For the year ended December 31,		
	2012	2011	2010
Summarized cash flow from operating activities			
Net income (loss)	$ (86.3)	$ 14.9	$292.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	243.6	229.4	166.9
Non-cash manufacturing expenses associated with favorable supply agreement	—	80.4	—
Gain on acquisition of SANYO Semiconductor	—	(24.3)	—
Non-cash share-based compensation expense	20.5	33.5	52.5
Non-cash interest on convertible notes	23.4	34.9	33.7
Non-cash asset impairment charges	103.0	86.3	3.9
Non-cash goodwill and intangible asset impairment charges	49.5	—	16.1
Other adjustments	47.6	49.1	7.1
Changes in assets and liabilities (exclusive of the impact of acquisitions):			
Receivables	95.4	89.1	(22.9)
Inventories	(7.1)	102.1	(84.0)
Deferred income on sales to distributors	(37.5)	22.5	50.7
Accounts payable	(161.3)	(109.7)	26.8
Other changes in assets and liabilities	(14.8)	(62.7)	8.1
Net cash provided by operating activities	$ 276.0	$ 545.5	$551.8

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, calculated as total current assets less total current liabilities, 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. In addition, our working capital may be effected by capital activities as part of our share repurchase program and transactions involving our convertible notes and other debt instruments. Our working capital, including cash and cash equivalents and short-term investments, was $669.1 million at December 31, 2012 and has fluctuated between $1,076.2 million and $669.1 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. For the year ended December 31, 2012, our working capital decreased primarily due to payments associated with restructuring activities as discussed in Note 6: "Restructuring, Asset Impairments and Other, net" of the notes to our audited consolidated financial statements in this Form 10-K. For the year ended December 31, 2012, our working capital was also impacted by approximately $55.5 million in share repurchase activity, inclusive of fees, commissions and other expenses. See Note 10: "Earnings Per Share and Equity" of the notes to our audited consolidated financial statements in this Form 10-K for additional information on our share repurchase program.

Long-Term Assets and Liabilities

Our long-term assets consist primarily of property, plant and equipment, intangible assets and goodwill.

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. We will continue to look for opportunities to make strategic purchases in the future for additional capacity.

Our long-term liabilities, excluding long-term debt, consist of liabilities under our foreign defined benefit pension plans and contingent tax reserves. In general, the annual funding of our foreign defined benefit pension plan 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 Form 10-K. 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 Form 10-K.

Key Financing and Capital Events

Overview

For the past several years, we have undertaken various measures to repurchase shares of our common stock, 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 2012. Set forth below is a summary of certain key financing events affecting our capital structure during the last three years. For further discussion of our debt instruments see Note 8: "Long-Term Debt" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

2012 Financing Events

Share Repurchase Program

During the year ended December 31, 2012, we purchased approximately 8.8 million shares of our common stock under a share repurchase program for an aggregate purchase price of approximately $55.3 million, exclusive of fees, commissions and other expenses, at a weighted-average price per share of $6.26. See Note 10: “Earnings Per Share and Equity” under the heading “Equity—Share Repurchase Program” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information on the share repurchase program.

Exchange of 2.625% Convertible Senior Subordinated Notes due 2026

During the year ended December 31, 2012, we exchanged $99.9 million in par value ($92.8 million of carrying value) of our 2.625% Convertible Senior Subordinated Notes due 2026 for $99.9 million in par value of our 2.625% Convertible Senior Subordinated Notes due 2026, Series B and $2.0 million in cash, resulting in a loss on debt repurchase of $7.8 million, which included the write-off of $0.6 million of unamortized debt issuance costs. Subject to certain other terms and conditions, this exchange extended the earliest put date for the exchanged amount from December 2013 to December 2016. See Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for information on the convertible notes exchange including information on our 2.625% Convertible Senior Subordinated Notes due 2026 and 2.625% Convertible Senior Subordinated Notes due 2026, Series B .

Redemption of 1.875% Convertible Senior Subordinated Notes due 2025

During the year ended December 31, 2012, we redeemed approximately $21.6 million in aggregate principal value of our 1.875% Convertible Senior Subordinated Notes due 2025 for approximately $21.6 million in cash. See Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for information on the notes redemption.

Retirement of Zero Coupon Convertible Senior Subordinated Notes due 2024

During the year ended December 31, 2012, we exercised a call option relating to our Zero Coupon Convertible Senior Subordinated Notes due 2024. As a result, we paid the aggregate principal amount of $96.2 million to the holders of the notes and retired the outstanding obligation. See Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for information on the notes redemption and retirement.

2011 Financing Events

Senior Revolving Credit Facility

During the year ended December 31, 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 Facility provides for $40.0 million of 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. While there is no balance due on the Facility as of December 31, 2012, a letter of credit is outstanding under the Facility in the amount of $0.2 million. Additionally, we have other letters of credit outstanding. See Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information on the Senior Revolving Credit Facility and other debt instruments.

Repurchase or Exchange of 2.625% Convertible Senior Subordinated Notes due 2026

During the year ended December 31, 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. Subject to certain other terms and conditions, this exchange extended the earliest put date for the exchanged amount from December 2013 to December 2016.

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. See Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for information on the convertible note repurchase or exchange.

Acquisition Note Payable to SANYO Electric

During the year ended December 31, 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 Transaction. The loan had an original principal amount of approximately $377.5 million and had a principal balance of $302.0 million as of December 31, 2012. 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. See Note 8: “Long-Term Debt” and Note 20: “Subsequent Events” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for further details relating to the acquisition note payable to SANYO Electric.

2010 Financing Events

Amended Indenture for Zero Coupon Convertible Senior Subordinated Notes due 2024

During the year ended December 31, 2010, we unilaterally amended the Indenture for our Zero Coupon Convertible Senior Subordinated Notes due 2024, which provided an additional opportunity to require us to repurchase the notes on April 15, 2012 and deferred our ability to redeem the notes at our option from April 15, 2010 to April 15, 2012. The terms of this put option were otherwise identical to preexisting terms of the notes.

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

Prepayment of Senior Bank Facilities

During the year ended December 31, 2010, we terminated our then existing 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 our then existing senior bank facilities in 2010 temporarily impacted our liquidity while providing additional financial and operational flexibility. Since the termination, we have continued to generate strong free cash flow. We regained this liquidity with the entry into our new senior revolving credit facility in December 2011, as described above.

Debt Guarantees and Related Covenants

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 19: “Guarantor and Non-Guarantor Statements” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K, on the terms described in the indentures for such notes. As of December 31, 2012, we believe that we were in compliance with the indentures relating to 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 at least December 31, 2013.

See Note 8: "Long-Term Debt" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information on our debt instruments.

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 may have an effect on our revenue recognition. 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, 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 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.

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 it is more likely than not 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 more likely than not 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.

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 group may not be fully recoverable. Impairment is first assessed when the undiscounted expected cash flows derived for an asset group are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset group 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 group. 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 asset groups 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 annually during the fourth quarter and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Determining the fair value of a reporting unit is subjective in nature and involves the use of significant estimates and assumptions including projected net cash flows, discount and long-term growth rates. We determine the fair value of our reporting units based on an income approach, whereby the fair value of the reporting unit is derived from the present value of estimated future cash flows. Estimates of the future cash flows associated with the businesses are critical to these assessments. The assumptions about future conditions include factors such as future revenues, gross profits, operating expenses, and industry trends. Changes in these estimates based on evolving economic conditions or business strategies could result in material impairment charges in future periods. We base our fair value estimates on assumptions we believe to be reasonable. Actual future results may differ from those estimates. We consider historical rates and current market conditions when determining the discount and growth rates to use in our analysis.

When evaluating goodwill for impairment, we initially perform a qualitative assessment which includes a review and analysis of certain quantitative factors to estimate if our reporting units' fair values significantly exceed their carrying values. When the estimate of a reporting unit's fair value appears likely to be less than its carrying value based on this assessment, we continue to the first step of a two step impairment test.

The first step of the goodwill impairment test compares the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the goodwill impairment test in order to determine the implied fair value of the reporting unit's goodwill. If, during this second step, we determine that the carrying value of a reporting unit's goodwill exceeds its implied fair value, we would record an impairment loss equal to the difference.

We have determined that our product families, which are components of our operating segments, constitute reporting units for purposes of allocating and testing goodwill. Our product families are one level below the operating segments, constituting individual businesses with our segment management conducting regular reviews of the operating results for 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 2013; 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. We maintain defined benefit pension plans covering certain of our non-U.S. 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 and consultation with an actuary, 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, 2012, 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 $56.0 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 reasonably estimable.

For a further listing of our accounting policies, see Note 2: "Significant Accounting Policies" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 5: "Recent Accounting Pronouncements" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

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, 2012, our long-term debt (including current maturities) totaled $1,011.9 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $608.1 million. We do have interest rate exposure with respect to the $403.8 million balance on our variable interest rate debt outstanding as of December 31, 2012. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next twelve months by approximately $2.0 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 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.

We enter into forward foreign currency contracts that economically hedge the gains and losses generated by the re-measurement of certain recorded assets and liabilities in a non-functional currency. Changes in the fair value of these undesignated hedges are recognized in other (income) expense immediately as an offset to the changes in the fair value of the assets or liabilities being hedged. The notional amount of foreign exchange contracts at December 31, 2012 and 2011 was $197.3 million and $203.4 million, respectively. Our policies prohibit speculation on financial instruments, trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure.

Substantially all of our revenue is transacted in U.S. dollars. However, a significant amount of our operating expenditures and capital purchases are transacted in local currencies, including Japanese Yen, Euros, Malaysian ringgit, Philippines peso, Singapore dollars, Canadian dollars, Swiss francs, Chinese renminbi, Czech koruna and British pounds sterling. Due to the materiality of our transactions in these local currencies, our results are impacted by changes in currency exchange rates measured against the U.S. dollar. For example, we determined that based on a hypothetical weighted average change of 10% in currency exchange rates, our results would have impacted our income before taxes by approximately $41.5 million as of December 31, 2012, assuming no offsetting hedge positions.