INTERSIL CORPORATION 2001 ANNUAL REPORT

“FREEDOM

lies in being

BOLD.”

— ROBERT FROST, poet

Leading the Way

Intersil® is a global leader in designing innovative wireless networking and high performance analog solutions that enable wireless access to video, data and voice in homes, offices and public places. Intersil also develops advanced power management products for file servers, portable information appliances and over half of all computer microprocessors manufactured today.

Intersil's silicon solutions and unique architectures have been adopted by leading global companies and incorporated into products being deployed into exciting growth markets. Our mission is to develop these enabling solutions for products that keep people at the center of connectivity wherever they live, work or play.

Our focus is on developing very fast wireless networking solutions for connectivity, plus advanced power management products that control the power on today's high-speed computer motherboards, whether they're in desktops, file servers or portables. Intersil brings added value in providing not only complete silicon solutions, but also software, reference designs and other design tools that get our customers to market quickly.

Headquartered in Irvine, California, with offices throughout North America, Europe and Asia, Intersil employs more than 2,000 people worldwide.

Intersil trades on the Nasdaq under the ticker symbol ISIL.

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Intersil has a bold vision
for enabling a wireless world.
It's about SPEED.
It's about POWER.
It's about FREEDOM.

The POWER
of personal FREEDOM.

"Everything that is really great and

INSPIRING

is created by the individual

who can labour in

FREEDOM."

— ALBERT EINSTEIN
physicist

POP QUIZ.
Who is behind the world's leading wireless portability and connectivity solutions?

The answer is Intersil. Our company pioneered the breakthrough communications technology that provides an affordable alternative to old-fashioned "wired" networks. So there's no longer a need to waste resources hard-wiring classrooms, offices or homes. For today's students, that means no more disruptive visits to the "computer room." Now the world of information comes to them.

"As the world's leader in PC motherboard revenue,
ASUS could not afford to accept anything less than the high product value,

RELIABILITY

and customer service provided by Intersil.

We selected Intersil as our primary power solutions provider for our new ASUS motherboards because of their

PROVEN track record."

— JERRY SHEN
Associate Vice President of ASUSTEK's
Research & Development Division, 12/4/01

TRUST.
Who do the leading OEMs count on to make today's power hungry computers more efficient?

Intersil again. We contribute to wireless connectivity products in two important ways. Retail manufacturers such as Linksys and D-Link build our enabling technology into their wireless networking products. And Intel and AMD build our sophisticated power management solutions into their advanced desktop microprocessors. So access the Internet from every computer in the house... wirelessly and simultaneously. We enable the connection... and manage the power.

“FREEDOM
is a state of
MIND.”

— W.E.B. DuBOIS
human rights activist

STAY IN TOUCH.
Stay connected. Anytime. Anywhere. It’s just a matter of having Intersil inside.

Our intellectual property is integral to a growing number of innovative computing and communications products. Intersil’s customer Symbol Technologies is a case in point. It makes the card that enables wireless connectivity for the Compaq iPAQ Pocket PC. This popular device helps keep people connected to the Internet for information and entertainment. And that makes “down-time” more productive… and even fun.

“MOBILITY
gives you
FLEXIBILITY.”

— JOHN CHAMBERS
President & CEO of Cisco Systems
InfoWorld, 11/12/01

GET SMART.
Wireless access to worlds of information… from wherever you happen to be.

Students need mobility so Cisco Systems is taking advantage of Intersil technology to turn places like the University of North Carolina into “wireless” campuses. Our silicon solutions enable connectivity between the network points and students’ computing devices. And our power management solutions keep their PCs humming. Now they can carry a notebook PC to class, the library or the cafeteria… and stay connected.

"Intersil's PRISM 2.5 wireless networking chip set is housed on a small form factor Mini-PCI card that allows IBM to design

EMBEDDED

wireless LAN

CAPABILITY

directly into the internal design of the ThinkPad 23. This provides off-the-shelf wireless capability for our customers and eliminates the need for external add-in cards."

— PETER HORTENSIUS
Vice President of Development,
IBM Personal Computing Devices, 8/1/01

TAKE CHARGE.
All the network services, only no wires. Plus the freedom to move, share and regroup.

Smart companies know the benefits of providing their people with wireless networking capabilities. Faster and more convenient access to information improves communication... and productivity. To meet that growing demand, Intersil customers like IBM, Hewlett-Packard and Compaq are now embedding our wireless access technology in their notebook PCs. This is proven technology — it's built in and it's here to stay.

Dear Intersil Shareholder

2001 was a difficult year for the semiconductor industry. A 32% decline resulted from over capacity, excess inventories and slower demand from equipment manufacturers. There was limited recovery in the fourth quarter and the Semiconductor Industry Association forecasts 6% growth in 2002.

Despite this environment, Intersil fared much better than the industry, maintaining profitability, increasing gross margins and expanding design wins for new products. We generated cash from operations each quarter, ending 2001 with one of the strongest balance sheets in our sector ($600 million in cash and no debt).

THE LEADER IN WIRELESS NETWORKING

Intersil supplies the world's leading solution for wireless local area networking (WLAN). Our unique PRISM® family offers OEMs an integrated solution including radios, system-level reference designs, software and chip sets for high-data-rate wireless networking applications. We are the only semiconductor company offering such complete value, tailored to meet the specific product requirements of manufacturers worldwide.

We introduced two new Wi-Fi (802.11b) solutions this year. PRISM 2.5 and PRISM 3 helped us capture new business with five of the world's leading notebook manufacturers. In 2002 we'll be shipping PRISM Indigo™, our higher data rate 802.11a solution, along with PRISM GT, a 54 megabit per second radio that is backwards compatible with the installed base of more than 15 million WLANs. We partnered with Cisco Systems to co-develop WLAN reference designs for the draft IEEE 802.11g standard.

Our higher data rate PRISM solutions improve video quality and multi-tasking capabilities for an increasingly connected world. I am excited about our strategy, market position and strong customer partnerships in wireless, and believe this new platform offers us an opportunity for attractive growth for years to come!

A SIGNIFICANT AND GROWING ANALOG BUSINESS

Intersil's analog business made steady strides in 2001, with gross margins improving from 50% to 54%. We are a leading U.S. supplier of analog semiconductors for communications and power management, and our Endura family of controllers now manages power for over half of Intel's new, high-speed Pentium® 4 microprocessors.

We are using our expertise in desktop and server power management to address a "power crisis" in electronics — the growing demand for high-speed microprocessing and extended battery life in notebooks and handheld devices. As a leading provider of high-speed wireless networking and power management architectures, Intersil is uniquely positioned to deliver solutions optimized for mobile computing.

With two strategic investments in power during 2001, we focused on innovative software and semiconductor approaches to extending battery life for notebooks and handheld computers, along with the co-development of digital power solutions for a new generation of high-speed, multi-gigahertz microprocessors.

INVESTING IN THE FUTURE

We are also launching new families of power ICs for PC graphics cards, double data rate (DDR) memory and notebook computers. These new analog alliances and initiatives enable us to extend our R&D, deliver new products to our customers and grow our revenues.

With record investments in overall R&D in 2001, and nearly one in three employees an engineer, Intersil is clearly focused on delivering future wireless and analog solutions. Being the market leader means "obsoleting" our own products before the competition does.

Intersil's vision is to apply analog and wireless technologies to enable personal freedom and optimize productivity for people at work, at home and on the go. Personal freedom means access to Internet services and network resources from any room at home or in school, from any office at work, and in airports, hotels and other public places.

Our vision is becoming reality. We have now shipped more than 11 million PRISM radios and more than 300 million Endura power ICs. We expect this momentum to grow as companies expand capital spending to improve productivity.

Intersil has made tremendous progress since our founding in 1999, and we're proud of what we accomplished in 2001. More importantly, we're enthusiastic about where Intersil is going! We are strategically positioned for two of the fastest growing markets, wireless networking and analog. We have proven that Intersil can execute, expand margins and maintain profitability, while enhancing our technologies and capabilities — even during a difficult industry downturn.

Intersil has a solid financial foundation from which to deliver wireless and analog solutions that enable personal freedom. We will continue to execute until our vision is realized... it is simply a matter of time.

GREGORY WILLIAMS
PRESIDENT & CEO

"**TIME** is finite — and the personal freedom afforded by Intersil's

SOLUTIONS

allows us to optimize it."

— GREG WILLIAMS
President & CEO, Intersil Corporation

INTERSIL... technology at the

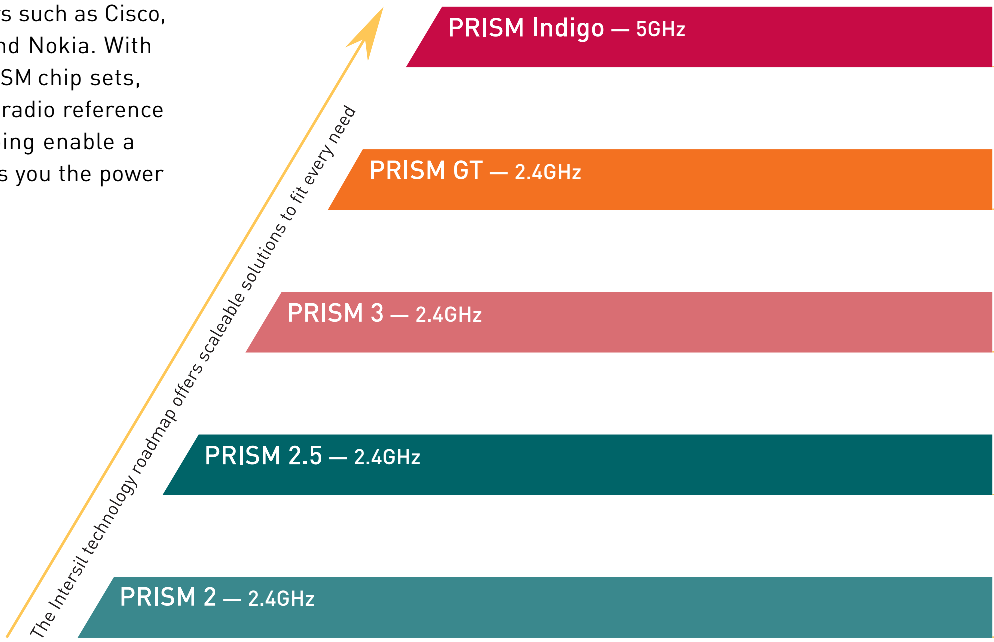
SPEED of life.

Today's connected generation expects more. They appreciate the value that is brought to their daily lives by an array of exciting new products that promise connectivity, innovation and performance. Intersil technology is at the heart of the revolution. As a dominant supplier in the wireless networking arena and holder of proprietary positions in analog markets, Intersil has over 1,400 patents in its intellectual property portfolio and designs products that enable people to live, work and play... at the speed of life.

PRISM

While Wireless Local Area Networks (WLANs) are becoming more complex, Intersil's award-winning PRISM® chip sets are simplifying the design-in process.

The world's leading silicon solution for WLANs, PRISM is the architecture of choice for market leaders such as Cisco, IBM, Linksys, Symbol and Nokia. With its industry-leading PRISM chip sets, software, firmware and radio reference designs, Intersil is helping enable a wireless world that gives you the power of **personal freedom**.



COMMLINK

Intersil's CommLink™ products provide silicon solutions for cellular base stations and broadband wireless access markets. These products offer systems designers a comprehensive portfolio of integrated circuits (ICs) and reference designs for high-speed, high-performance wireless communications applications.

Data Rate	
54 Mbps	For the 5 gigahertz (GHz) band, this 802.11a WLAN chip set delivers a remarkable 54 mega-bits-per-second (Mbps) data rate, with best-in-class radio performance, bill of materials (BOM) cost and power consumption. Optimal for short-range, high-density access and building-to-building bridges, this chip set began sampling in the first quarter of 2002.
54 Mbps	Five times faster and backwards compatible with more than 15 million already installed 802.11b radios. While operating in the 2.4GHz band, this solution complies with the IEEE 802.11g draft standard and will begin shipping to industry leaders such as Cisco in the second half of 2002.
11 Mbps	Intersil's latest product offering is the world's first three-chip solution, which includes an innovative Direct Down Conversion (Zero-IF) architecture. This significantly reduces the overall BOM cost and enables partners such as Linksys and D-Link to create products in smaller form factors for existing and emerging markets.
11 Mbps	Ideal for smaller form factors and embedded WLAN applications, this four-chip solution enables the world's first totally integrated (bridge free) USB, PCI and miniPCI designs. This version of Intersil's WLAN chip sets has been embedded in several of today's leading notebooks, such as those offered by IBM, Hewlett Packard, Toshiba and Panasonic.
11 Mbps	Used in many of today's high-speed wireless applications, including home gateways, public LANs, web pads and displays. More than seven million of these PRISM 2 chip sets have been shipped to date and comprise a large portion of the currently installed WLAN infrastructure.

	For 2.5G and 3G cellular base stations, CommLink software-defined radio ICs accommodate all current and next-generation protocols, including AMPS, GSM, IS-136 TDMA, EDGE, IS-95 CDMA, 3G-CDMA2000 and 3G-WCDMA. Intersil's CommLink family replaces redundant, costly hardware with a smaller, highly integrated and flexible lower cost solution.
	Intersil's wireless networking ICs for Metropolitan Area Networks (MANs) include highly programmable, cost-effective modem solutions, which deliver fiber-like performance and reliability to equipment manufacturers serving fixed wireless infrastructure and access markets.

Communications Analog

As the world continues to move toward high-speed wireless appliances, battery life becomes more and more of a concern. This is where Intersil steps in with leading power management solutions for the products of today and tomorrow. Intersil provides the **power** of personal freedom.

Endura Power Management ICs

Intersil continues to lead the industry by delivering highly efficient power management solutions for today's high-speed, low voltage microprocessors. Intersil's Endura™ family addresses the increasing demands for power, connectivity and availability of higher performing information appliances. They also keep half of the world's Intel Pentium® 4 class motherboards humming. Intersil is also a recognized leader in power management solutions for hot swapping of boards, disk drives and other peripherals in today's high-availability servers.

Intersil's latest Endura ICs will also power new generations of PC peripherals including graphics cards, double date rate (DDR) memory and synchronous dynamic random access memory (SDRAM). As microprocessor speeds continue to increase in notebooks, Endura ICs will be there to manage the power and extend the battery life. Through strategic alliances and investments in R&D, Intersil is preparing for the increasing power demands of tomorrow's products.

Standard Analog

Our standard analog products are tailored to meet the increasing design complexities in today's communications equipment. This extensive portfolio includes high-speed data converters, analog switches, multiplexers, operational amplifiers, and interface circuits that go into such applications as PDAs and residential gateways. Our standard analog portfolio also includes Subscriber Line Interface Circuits (SLICs) which are designed to facilitate Voice over Internet Protocol (VoIP) telephony in current and next-generation cable modems, set top boxes, DSL modems and Metropolitan Area Network subscriber terminals.

Financial Highlights

INTERSIL IS FOCUSED ON TWO OF THE FASTEST GROWING MARKETS

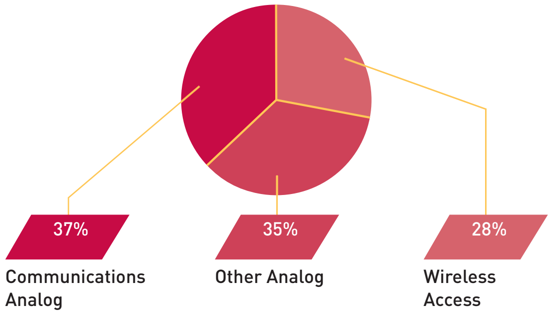
	'01-'04 Revenue
Wireless LAN Chip Market (Source: Allied Business Intelligence, Oct. 2001)	CAGR of 34%
Power Management Market (Source: WSTS, Nov. 2001)	CAGR of 18%

THE INTERSIL TRANSFORMATION

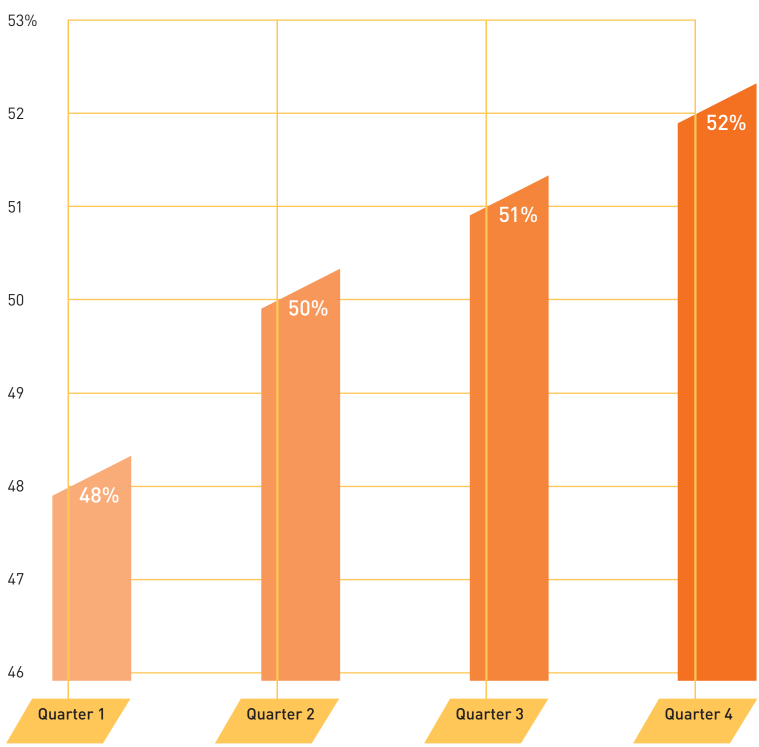
	1999	2001*
Wireless Access/Communications Analog Revenue	$175M	$348M
Gross Margins	37%	52%
R&D	16%	21%
SG&A	23%	18%
Engineers/Total Employees	1 in 12	1 in 3
Net Cash	($490M)	>$600M

* Based on Q4

CALENDAR YEAR 2001 REVENUE BREAKDOWN



2001 GROSS MARGIN IMPROVEMENT



“We have consistently

OUTPERFORMED

the industry — expanding our gross margins, maintaining

PROFITABILITY,

and improving our balance sheet during a challenging year in the semiconductor industry.”

— DAN HENEGHAN
CFO, Intersil Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with, and is qualified in its entirety by, reference to our consolidated financial statements, including the notes thereto. Except for historical information, the discussions in this section contain "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those discussed below.

This Annual Report contains statements relating to expected future results and business trends of the Company that are based upon our current estimates, expectations, and projections about our industry, and upon management's beliefs, and certain assumptions we have made, that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will," and variations of these words or similar expressions are intended to identify ''forward-looking statements." In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances, including any underlying assumptions, are "forward-looking statements." Such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results may differ materially and adversely from those expressed in any "forward-looking statement" as a result of various factors. These factors include, but are not limited to: global economic and market conditions, including the cyclical nature of the semiconductor industry and the markets addressed by the Company's and its customers' products; demand for, and market acceptance of, new and existing products; successful development of new products; the timing of new product introductions; the successful integration of acquisitions; the availability and extent of utilization of manufacturing capacity and raw materials; the need for additional capital; pricing pressures and other competitive factors; changes in product mix; fluctuations in manufacturing yields; product obsolescence; the ability to develop and implement new technologies and to obtain protection of the related intellectual property. These "forward-looking statements" are made only as of the date hereof, and the Company undertakes no obligation to update or revise the "forward-looking statements," whether as a result of new information, future events or otherwise.

OVERVIEW

We provide system level solutions for the wireless access and communications analog markets. We focus on high data rate wireless connectivity, power management and wireless and wired communications infrastructure. We use our expertise in digital and analog semiconductors and radio and software design to deliver chip sets, components, software and licensable application designs for communications and computing customers.

BASIS OF PRESENTATION

We were formed on August 13, 1999 through a series of transactions, in which we acquired the semiconductor business of Harris Corporation, or Harris. Intersil Corporation, or Intersil and its wholly owned domestic and foreign subsidiaries include the operations of the Predecessor.

The total purchase price of the semiconductor business acquisition was $614.3 million, which included transaction costs of approximately $7.8 million and deferred financing costs of $12.2 million. The consideration paid by Intersil was $504.3 million in cash of which $420.0 million was financed through borrowings and the issuance of a $90 million PIK Note to Harris. The acquisition was accounted for using the purchase method of accounting and accordingly, the operating results of the semiconductor business have been included in Intersil's consolidated financial statements since the date of acquisition. The total purchase price was allocated to the assets and liabilities of the semiconductor business based upon their approximate fair values. The fair values of the net assets acquired exceeded the purchase price resulting in negative goodwill of $200.0 million. This negative goodwill was allocated to the identified intangibles and property and equipment based on their relative fair values. The most significant effects were to decrease property, plant and equipment and to increase certain intangibles and liabilities.

Certain financial information for the periods prior to August 13, 1999 is not comparable to periods subsequent to August 13, 1999. All statement of operations information for the 26 weeks and the 52 weeks ended December 31, 1999 represents the combined results of the semiconductor business from July 3, 1999 and January 2, 1999, respectively, through August 13, 1999, and Intersil from August 14, 1999 through December 31, 1999.

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Revenue

Revenue from continuing operations for the 52 weeks ended December 28, 2001 decreased 18.0% to $481.1 million from $586.9 million during the 52 weeks ended December 29, 2000. The decline is the result of an overall industry slowdown in demand for wireless and communications products.

Geographically, 32.9%, 48.0% and 19.1% of product sales were derived in North America, Asia/Pacific and Europe, respectively, during the 52 weeks ended December 28, 2001 compared to 43.4%, 33.4% and 23.2% during the 52 weeks ended December 29, 2000. This change is the result of increased demand from Asia-based customers and increased customer use of Asia-based contract manufacturers.

Gross Margin

Cost of product sales consists primarily of purchased materials, labor and overhead (including depreciation) associated with product manufacturing, plus licensing, warranty and sustaining engineering expenses pertaining to products sold. In the 52 weeks ended December 28, 2001, gross margin on product sales decreased 21.2% to $222.5 million from $282.3 million in the 52 weeks ended December 29, 2000. As a percentage of sales, gross margin was 46.2% during the 52 weeks ended December 28, 2001 compared to 48.1% during the 52 weeks ended December 29, 2000. We recorded an inventory charge of $19.2 million in the quarter ended March 30, 2001 due to the exit of product lines and obsolescence related to changing market conditions. We anticipate that future gross margin percentages will continue to be affected by factors such as product mix, the timing of new product introductions, market conditions and manufacturing volume.

Research and Development ("R&D")

R&D expenses consist primarily of salaries and costs of employees engaged in product/process research, design and development activities, as well as related subcontracting activities, prototype development, cost of design tools and technology license agreement expenses. R&D expenses increased 25.0% to $106.1 million during the 52 weeks ended December 28, 2001 from $84.9 million during the 52 weeks ended December 29, 2000. The increase was the result of our continued investment in PRISM® chip sets, broadband wireless access products and power management ICs, focusing on communications and computing products. As a percentage of sales, R&D expenses increased to 22.1% for the 52 weeks ended December 28, 2001 from 14.5% for the 52 weeks ended December 29, 2000.

In-Process Research and Development

In connection with the acquisition of SiCOM Inc. in October 2000, we allocated $25.4 million of the purchase price to in-process R&D projects. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. At the date of the acquisition, the development of these projects had not yet reached technological feasibility and the in-process R&D had no alternative future uses. Accordingly, these costs were expensed as a one-time charge to earnings in the 52 weeks ended December 29, 2000.

In making the purchase price allocation, we relied on present value calculations of income, an analysis of project accomplishments and completion costs and an assessment of overall contribution and project risk. The present value was determined by discounting two to seven years of after tax cash flow projections depending on the individual project. We used a discount rate ranging from 25%–36%, depending on the risk of the project. The fair values assigned to each of the significant projects and the stage of completion are reported below:

Product	Fair Value (In millions)	Stage of Completion
SM/SD 7060	$ 25.1	86%
Other	0.3	56%–70%
TOTAL	**$ 25.4**	

A discussion of the most significant project follows:

SM/SD 7060 refers to a project researched and in development in the broadband wireless applications area. This two chip set (modulator and demodulator) design will provide complete modem functionality. The chips will be highly programmable which allows use in a wide range of broadband wireless Point-to-Point (PTP) products ranging from very low capacity (less than 45 Mbps) up to 1 Gbps (Gigabytes per second). This chip set is expected to be the first programmable broadband wireless modem chip set on the market targeted at PTP applications.

At December 28, 2001, all of these in-process R&D projects had either completed all phases of design, development and testing or had been discontinued. No future development expenses are anticipated for these projects.

Selling, General and Administrative ("SG&A")

SG&A costs, which include marketing, selling, general and administrative expenses, decreased to $93.5 million during the 52 weeks ended December 28, 2001 from $119.7 million during the 52 weeks ended December 29, 2000. The decline was due to implementation of defined restructuring activities and general cost control initiatives. As a percentage of sales, SG&A costs decreased to 19.4% for the 52 weeks ended December 28, 2001 from 20.4% for the 52 weeks ended December 29, 2000. We expect SG&A expenses to remain relatively flat during 2002.

Intangible Assets

Amortization of intangible assets increased to $44.2 million for the 52 weeks ended December 28, 2001 from $20.8 million for the same time period in calendar year 2000. The increase was the result of goodwill and other certain intangible assets that were recorded in connection with the acquisitions of No Wires Needed, B.V. in May 2000 and SiCOM, Inc. in October 2000. These assets are being amortized over their useful lives ranging from 5 to 11 years. Amortization expense attributable to goodwill and indefinite lived intangible assets amounted to $32.7 million and $13.3 million for the 52 weeks ended December 28, 2001 and December 29, 2000, respectively.

Loss on Sale of Malaysian Operation

On June 30, 2000, we completed the sale of our Kuala Lumpur, Malaysia-based semiconductor assembly and test operations to ChipPAC. As consideration for the sale we received approximately $52.5 million in cash and $15.8 million in ChipPAC preferred convertible stock and we recognized a non-recurring, non-cash charge of $24.8 million for loss on sale.

Interest Expense

Interest expense for the 52 weeks ended December 28, 2001 is not comparable to interest expense for the 52 weeks ended December 29, 2000 due to changes in our debt and cash positions during those time periods. Specifically, we experienced an increase in available cash and cash equivalents from the sale of the assets of the Discrete Power products group. Additionally, we experienced a decrease in our interest expense due to the continuous reduction and eventual elimination of our long-term debt during calendar year 2000 and into the first quarter of calendar year 2001.

Restructuring and Other Charges

In March 2001, the Board of Directors approved and we announced several major restructuring activities to improve on-going operations and product gross margins. The restructuring plans included the phased closure of our Findlay, Ohio manufacturing operation, the exit of the modem board assembly manufacturing process in Scottsdale, Arizona and the exit of the value-added-reseller's, or VAR's, channel in Europe for wireless access end products. As a result of the restructuring, we recorded expenses of approximately $32.4 million ($15.7 million after tax) in the 52 weeks ended December 28, 2001. The plans include certain exit costs and employee termination benefits. Benefits from these restructuring plans will be realized as these specifications are completed in the form of reduced employee expenses, lower depreciation expense and lower operating costs. A summary of the restructuring charges and the remaining accrual follows:

(In millions)	Reserve	Utilization	Balance December 28, 2001
Restructuring costs			
Employee termination costs			
Findlay, Ohio facility closure	$ 16.4	$ (2.8)	$ 13.6
SiCOM board business exit	0.3	(0.3)	—
NWN VAR business exit	0.2	(0.2)	—
	16.9	(3.3)	13.6
Other exit costs			
Findlay, Ohio facility decommission costs	4.5	(0.4)	4.1
SiCOM asset removal and related costs	10.0	(10.0)	—
SiCOM contract cancellation costs	1.0	(0.8)	0.2
	15.5	(11.2)	4.3
TOTAL RESTRUCTURING COSTS	$ 32.4	$ (14.5)	$ 17.9

In connection with the announced restructurings, approximately 534 employees were notified that their employment would be terminated and of the specifics of their severance benefits. Those positions included manufacturing, selling and general and administrative employees with 521 of the employees being located in the United States and 13 in Europe. As of December 28, 2001, approximately 22% of the affected employees had been terminated; due to the timing of the phased closure of the Findlay, Ohio manufacturing operation, the remaining employees will be terminated over the next nine months.

Other exit costs include costs to decommission (removal of semiconductor specific equipment and leasehold improvements) the Findlay, Ohio site to a marketable condition. We wrote off $9.5 million of intangible assets as well as other miscellaneous assets attributable to the exit of the modem board assembly manufacturing process. We terminated some existing contracts in connection with the exit of the modem board assembly manufacturing process and have recognized the associated termination costs as part of this restructuring.

In connection with the phased closure of the Findlay, Ohio manufacturing operation, we recorded an impairment of $7.6 million ($3.7 million after tax) on the property, plant and equipment. The impairment was determined by comparing the carrying value of the assets to an appraised value on the land and buildings and the expected future undiscounted net cash flows from the equipment to be disposed.

Impairment on Investments

Marketable securities consist of shares of ChipPAC common stock that have been classified as other assets. They are recorded at fair value, which is determined based on quoted market prices. During the 52 weeks ended December 28, 2001, we recorded an impairment charge of $8.2 million ($4.0 million after tax) related to our investment in ChipPAC common stock which reflected an other than temporary decline in value based on two consecutive quarters where the quoted market price was less than the carrying value.

Gain on Sale of Certain Operations

On March 16, 2001, we sold the assets of our Discrete Power products group to Fairchild for $338.0 million in cash and the assumption by Fairchild of certain liabilities of the product group. As a result of the sale, we recognized a gain of $168.4 million ($81.8 million after tax), which was net of the assets purchased and liabilities assumed by Fairchild, transaction fees and other exit costs associated with the sale. The exit costs include employee termination benefits that will be incurred within one year from the sale date.

At the date of the sale, Fairchild made offers of employment to a portion of our employees who supported the Discrete Power products group. Approximately 207 employees who were not offered jobs with Fairchild or who did not accept an employment offer were notified that their employment would be terminated and of the specifics of their severance benefits. Those positions included manufacturing, selling and general and administrative employees with 165 of the employees being located in the United States, 37 in Europe and 5 in Asia/Pacific. As of December 28, 2001, approximately 86% of the affected employees had been terminated with the balance to be terminated before March 31, 2002.

Other exit costs included information technology costs required to cover transferred software license fees and system modifications necessary to support the business transition activity. A transition services agreement requires that we provide systems support to Fairchild for up to 12 months from the date of sale. We wrote off $14.8 million of intangible assets as well as other miscellaneous assets attributable to the Discrete Power products group. We also identified approximately five foreign sales offices that we would close as a result of the sale. These offices will be closed prior to March 31, 2002.

The results of operations of the Discrete Power products group have been segregated and separately reported below operating income.

Extraordinary Item

During the 52 weeks ended December 28, 2001, we repurchased all $61.4 million of our outstanding 13.25% Senior Subordinated Notes in the open market. These repayments included certain pre-payment penalties and accrued interest. In connection with the early extinguishment of debt, we recorded extraordinary charges (net of tax effect), of $12.2 million. The extraordinary charges consisted of the write-off of deferred financing fees and premiums paid on repurchase.

During the 52 weeks ended December 29, 2000, we repurchased $51.0 million of our outstanding 13.25% Senior Subordinated Notes in the open market. We also repaid approximately $419.0 million of debt incurred through the acquisition of the semiconductor business. These repayments included certain pre-payment penalties and accrued interest. In connection with the early extinguishment of debt, we recorded extraordinary charges (net of tax effect) of $31.4 million. The extraordinary charges consisted of the write-off of deferred financing fees and pre-payment penalties.

Tax Expense

The tax provision for the 52 weeks ended December 28, 2001 is not comparable to the tax provision for the 52 weeks ended December 29, 2000 due to the gain generated from the sale of the assets of our Discrete Power products group and the other restructuring activities that were recorded during the first quarter of calendar year 2001.

Backlog

We had backlog at December 28, 2001 of $120.8 million compared to $256.9 million at December 29, 2000. Approximately $72.3 million of our December 29, 2000 backlog was related to our Discrete Power products group which we sold during the first quarter of calendar year 2001.

CALENDAR YEAR 2000 COMPARED WITH CALENDAR YEAR 1999

The following table sets forth supplemental statement of operations data in dollars and as a percentage of revenue for Intersil and its predecessor for the periods indicated:

	Supplemental			
	52 Weeks Ended		52 Weeks Ended	
(Dollars in thousands)	Successor December 29, 2000	Combined December 31, 1999	Successor December 29, 2000	Combined December 31, 1999
Revenue				
Wireless Access	$163,065	$ 49,555	27.8%	12.7%
Communications Analog	206,994	125,853	35.3	32.3
Other Analog	216,803	214,624	36.9	55.0
Total	586,862	390,032	100.0	100.0
Costs and expenses				
Cost of product sales	304,520	228,614	51.9	58.6
Research and development	84,885	62,455	14.5	16.0
Selling, general and administrative	119,675	84,585	20.4	21.7
Intangible amortization	20,815	5,074	3.5	1.3
In-process research and development	25,440	20,239	4.3	5.2
Other	1,177	6,153	0.2	1.6
Operating income (loss)	30,350	(17,088)	5.2	−4.4
Loss on sale of Malaysian operation	24,825	—	4.2	—
Interest, net	11,343	23,381	1.9	6.0
Loss before sale of certain operations, income taxes, extraordinary item and cumulative effect of a change in accounting principle	(5,818)	(40,469)	−1.0	−10.4
Operating results of certain operations disposed of during 2001				
Net sales	210,694	188,142	35.9	48.2
Costs and expenses	(158,049)	(154,769)	−26.9	−39.7
	52,645	33,373	9.0	8.6
Income (loss) before income taxes, extraordinary item and cumulative effect of a change in accounting principle	46,827	(7,096)	8.0	−1.8
Income taxes (benefit)	29,071	(3,350)	5.0	−0.9
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	17,756	(3,746)	3.0	−1.0
Extraordinary item — loss on extinguishment of debt, net of tax effect	(31,409)	—	−5.4	—
Loss before cumulative effect of a change in accounting principle	(13,653)	(3,746)	−2.3	−1.0
Cumulative effect of adoption of FAS 133, net of tax effect	(197)	—	0.0	—
NET LOSS	$ (13,850)	$ (3,746)	−2.4%	−1.0%

Note: Amounts may not add due to rounding.

Revenue

Revenue for the 52 weeks ended December 29, 2000 increased 50.5% to $586.9 million from $390.0 million during the combined 52 weeks ended December 31, 1999. The growth was the result of increased demand for communications products and overall improved market conditions. Wireless Access sales growth of 229% for the 52 weeks ended December 29, 2000 versus the same time period in calendar year 1999 was driven by increased market acceptance of our PRISM® products.

Geographically, 43.4%, 33.4% and 23.2% of product sales were derived in North America, Asia/Pacific and Europe, respectively, during the 52 weeks ended December 29, 2000 compared to 45.2%, 25.4% and 29.4% during the 52 weeks ended December 31, 1999. This change in mix was the result of increased demand from Asia-based customers and from other customers moving manufacturing facilities to Asia.

Gross Margin

Gross margin on product sales increased 74.9% to $282.3 million in the 52 weeks ended December 29, 2000, from $161.4 million in the combined 52 weeks ended December 31, 1999. As a percentage of sales, gross margin was 48.1% during the 52 weeks ended December 29, 2000 compared to 41.4% during the 52 weeks ended December 31, 1999. This increase was due primarily to a shift in sales from our historical mix of products to a higher percentage of our communications products. Our communications products, which include our wireless access products, generally carry higher margins. Increased capacity utilization in all three fabrication facilities, improved product costs from yield enhancements, and manufacturing cost improvement projects contributed to the margin improvement.

R&D

R&D expenses increased 35.9% to $84.9 million during the 52 weeks ended December 29, 2000 from $62.5 million during the 52 weeks ended December 31, 1999. The increase was the result of our continued investment in PRISM® chip sets and in power management integrated circuits, focusing on the categories of communications and computing products. As a percentage of sales, R&D expenses declined to 14.5% for the 52 weeks ended December 29, 2000 from 16.0% for the 52 weeks ended December 31, 1999.

In-Process Research and Development

In connection with the acquisition of SiCOM Inc. in October 2000, we allocated $25.4 million of the purchase price to in-process R&D projects. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. At the date of the acquisition, the development of these projects had not yet reached technological feasibility and the in-process R&D had no alternative future uses. Accordingly, these costs were expensed as a one-time charge to earnings in the 52 weeks ended December 29, 2000.

In making the purchase price allocation, we relied on present value calculations of income, an analysis of project accomplishments and completion costs and an assessment of overall contribution and project risk. The present value was determined by discounting two to seven years of after tax cash flow projections depending on the individual project. We used a discount rate ranging from 25%–36%, depending on the risk of the project. The fair values assigned to each of the significant projects and the stage of completion are reported below:

Product	Fair Value (In millions)	Stage of Completion
SM/SD 7060	$ 25.1	86%
Other	0.3	56%–70%
TOTAL	$ 25.4	

A discussion of the most significant project follows:

SM/SD 7060 refers to a project researched and in development in the broadband wireless applications area. This two-chip set (modulator and demodulator) design will provide complete modem functionality. The chips will be highly programmable, which allows use in a wide range of broadband wireless Point-to-Point (PTP) products ranging from very low capacity (less than 45 Mbps) up to 1 Gbps (Gigabytes per second). This chip set is expected to be the first programmable broadband wireless modem chip set on the market targeted at PTP applications.

At December 28, 2001, all of these in-process R&D projects had either completed all phases of design, development and testing or had been discontinued. No future development expenses are anticipated for these projects.

In connection with the acquisition of the semiconductor business of Harris in calendar year 1999, we allocated $20.2 million of the purchase price to in-process R&D projects. These projects were in various stages of completion ranging from 35%–90%. The present value of $29.0 million of in-process R&D was primarily determined by discounting 10 year after tax cash flow projections of the individual projects using a discount rate of 20%. The value was then reduced by negative goodwill resulting from the acquisition.

At the date of acquisition, the development of these projects had not yet reached technological feasibility and the in-process R&D had no alternative future uses. Accordingly, these costs were expensed as a one-time charge to earnings in the combined 52 weeks ended December 31, 1999.

At December 29, 2000, all of these in-process R&D projects had either completed all phases of design, development and testing or had been discontinued. No future development expenses are anticipated for these projects.

SG&A

SG&A costs increased to $119.7 million during the 52 weeks ended December 29, 2000 from $84.6 million during the 52 weeks ended December 31, 1999. The increase was due to additional selling costs resulting from higher sales in calendar year 2000 and additional marketing costs associated with our new company branding initiative. Operating expenses include charges allocated by Harris to us for legal, financial and other administrative expenses of $6.2 million for the 52 weeks ended December 31, 1999. As a percentage of sales, SG&A costs decreased to 20.4% for the 52 weeks ended December 29, 2000 from 21.7% for the 52 weeks ended December 31, 1999.

Intangible Assets

Amortization of intangible assets increased to $20.8 million for the 52 weeks ended December 29, 2000 from $5.1 million for the same time period in calendar year 1999. The increase was the result of goodwill and other certain intangible assets that were recorded in connection with the acquisitions of No Wires Needed, B.V. in May 2000 and SiCOM, Inc. in October 2000. Additionally, 52 weeks of amortization was recognized in calendar year 2000 on the opening balance sheet intangible assets versus 20 weeks in calendar year 1999. These assets are being amortized over their useful lives ranging from 5 to 11 years.

Loss on Sale of Malaysian Operation

On June 30, 2000, we completed the sale of our Kuala Lumpur, Malaysia-based semiconductor assembly and test operations to ChipPAC. As consideration for the sale, we received approximately $52.5 million in cash and $15.8 million in ChipPAC preferred convertible stock and we recognized a non-recurring, non-cash charge of $24.8 million for loss on sale.

Results of Certain Operations Sold

On March 16, 2001, we sold the assets of our Discrete Power products group to Fairchild. The results of operations of the Discrete Power products group have been segregated and separately reported below operating income.

Interest Expense

Interest expense for the 52 weeks ended December 29, 2000 is not comparable to interest expense for the 52 weeks ended December 31, 1999 due to changes in our debt and cash positions during those time periods.

Extraordinary Item

During the 52 weeks ended December 29, 2000, we repurchased $51.0 million of our outstanding 13.25% Senior Subordinated Notes in the open market. We also repaid approximately $419.0 million of debt incurred through the acquisition of the semiconductor business. These repayments included certain pre-payment penalties and accrued interest. In connection with the early extinguishment of debt, we recorded extraordinary charges (net of tax effect) of $31.4 million. The extraordinary charges consisted of the write-off of deferred financing fees and pre-payment penalties.

Tax Expense

The pro forma tax provision for the 52 weeks ended December 29, 2000 is not comparable to the pro forma tax benefit for the 52 weeks ended December 31, 1999 due to differences in our tax structure as compared to that of our combined tax reporting structure with that of the semiconductor business of Harris.

Backlog

We had backlog at December 29, 2000 of $256.9 million compared to $192.4 million at December 31, 1999. The increase was due to increased demand for our communications products and improved market conditions. Approximately $72.3 million and $61.6 million of our December 29, 2000 and December 31, 1999 backlog was related to our Discrete Power products group.

26 WEEKS ENDED DECEMBER 29, 2000 COMPARED WITH COMBINED 26 WEEKS ENDED DECEMBER 31, 1999

The following table sets forth statement of operations data in dollars and as a percentage of revenue for Intersil and its predecessor for the periods indicated:

	26 Weeks Ended		26 Weeks Ended	
(Dollars in thousands)	Successor December 29, 2000	Combined December 31, 1999	Successor December 29, 2000	Combined December 31, 1999
Revenue				
Wireless Access	$ 111,180	$ 26,803	33.6%	13.9%
Communications Analog	108,411	66,073	32.8	34.3
Other Analog	111,304	99,507	33.6	51.7
Total	330,895	192,383	100.0	100.0
Costs and expenses				
Cost of product sales	161,391	112,488	48.8	58.5
Research and development	46,990	29,938	14.2	15.6
Selling, general and administrative	65,305	45,091	19.7	23.4
Intangible amortization	15,271	3,806	4.6	2.0
In-process research and development	25,440	20,239	7.7	10.5
Other	—	1,164	—	0.6
Operating income (loss)	16,498	(20,343)	5.0	−10.6
Interest, net	(2,547)	24,242	−0.8	12.6
Income (loss) before sale of certain operations, income taxes, extraordinary item and cumulative effect of a change in accounting principle	19,045	(44,585)	5.8	−23.2
Operating results of certain operations disposed of during 2001				
Net sales	104,557	99,698	31.6	51.8
Costs and expenses	(79,746)	(78,721)	−24.1	−40.9
	24,811	20,977	7.5	10.9
Income (loss) before income taxes, extraordinary item and cumulative effect of a change in accounting principle	43,856	(23,608)	13.3	−12.3
Income taxes	30,759	1,297	9.3	0.7
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	13,097	(24,905)	4.0	−12.9
Extraordinary item — loss on extinguishment of debt, net of tax effect	(5,891)	—	−1.8	—
Income (loss) before cumulative effect of a change in accounting principle	7,206	(24,905)	2.2	−12.9
Cumulative effect of adoption of FAS 133, net of tax effect	(197)	—	−0.1	—
NET INCOME (LOSS)	$ 7,009	$ (24,905)	2.1%	−12.9%

Note: Amounts may not add due to rounding.

Revenue

Revenue for the 26 weeks ended December 29, 2000 increased 72.0% to $330.9 million from $192.4 million during the combined 26 weeks ended December 31, 1999. The growth is the result of increased demand for communications products and overall improved market conditions. Wireless Access sales growth of 315% for the 26 weeks ended December 29, 2000 versus the same time period in calendar year 1999 was driven by increased market acceptance of our PRISM® products.

Geographically, 41.8%, 36.4% and 21.8% of product sales were derived in North America, Asia/Pacific and Europe, respectively, during the 26 weeks ended December 29, 2000 compared to 42.2%, 27.6% and 30.2% during the combined 26 weeks ended December 31, 1999. This change in mix is the result of increased demand from Asia-based customers and from other customers moving manufacturing facilities to Asia.

Gross Margin

Gross margin on product sales increased 112.1% to $169.5 million in the 26 weeks ended December 29, 2000 from $79.9 million in the combined 26 weeks ended December 31, 1999. As a percentage of sales, gross margin was 51.2% during the 26 weeks ended December 29, 2000 compared to 41.5% during the combined 26 weeks ended December 31, 1999. This increase was due primarily to a sales shift from our historical mix of products to a higher percentage of our communications products. Our communications products, which include our wireless access products, generally carry higher margins. Increased capacity utilization in all three fabrication facilities, improved product costs from yield enhancements and manufacturing cost improvement projects contributed to the margin improvement.

R&D

R&D expenses increased 57.0% to $47.0 million during the 26 weeks ended December 29, 2000 from $29.9 million during the combined 26 weeks ended December 31, 1999. The increase was the result of our continued investment in PRISM® chip sets and in power management integrated circuits, focusing on the categories of communications and computing products. As a percentage of sales, R&D expenses decreased to 14.2% for the 26 weeks ended December 29, 2000 from 15.6% for the combined 26 weeks ended December 31, 1999.

In-Process Research and Development

In connection with the acquisition of SiCOM Inc. in October 2000, we allocated $25.4 million of the purchase price to in-process R&D projects. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. At the date of the acquisition, the development of these projects had not yet reached technological feasibility and the in-process R&D had no alternative future uses. Accordingly, these costs were expensed as a one-time charge to earnings in the 26 weeks ended December 29, 2000.

In making the purchase price allocation, we relied on present value calculations of income, an analysis of project accomplishments and completion costs and an assessment of overall contribution and project risk. The present value was determined by discounting two to seven years of after tax cash flow projections depending on the individual project. We used a discount rate ranging from 25%–36%, depending on the risk of the project. The fair values assigned to each of the significant projects and the stage of completion are reported below:

Product	Fair Value (In millions)	Stage of Completion
SM/SD 7060	$ 25.1	86%
Other	0.3	56%–70%
TOTAL	$ 25.4	

A discussion of the most significant project follows:

SM/SD 7060 refers to a project researched and in development in the broadband wireless applications area. This two-chip set (modulator and demodulator) design will provide complete modem functionality. The chips will be highly programmable, which allows use in a wide range of broadband wireless Point-to-Point (PTP) products ranging from very low capacity (less than 45 Mbps) up to 1 Gbps (Gigabytes per second). This chip set is expected to be the first programmable, broadband wireless modem chip set on the market targeted at PTP applications.

At December 28, 2001, all of these in-process R&D projects had either completed all phases of design, development and testing or had been discontinued. No future development expenses are anticipated for these projects.

In connection with the acquisition of the semiconductor business of Harris in calendar year 1999, we allocated $20.2 million of the purchase price to in-process R&D projects. These projects were in various stages of completion ranging from 35%–90%. The present value of $29.0 million of in-process R&D was primarily determined by discounting 10 year after tax cash flow projections of the individual projects using a discount rate of 20%. The value was then reduced by negative goodwill resulting from the acquisition.

At the date of acquisition, the development of these projects had not yet reached technological feasibility and the in-process R&D had no alternative future uses. Accordingly, these costs were expensed as a one-time charge to earnings in the combined 26 weeks ended December 31, 1999.

At December 29, 2000, all of these in-process R&D projects had either completed all phases of design, development and testing or had been discontinued. No future development expenses are anticipated for these projects.

SG&A

SG&A costs increased to $65.3 million during the 26 weeks ended December 29, 2000 from $45.1 million during the combined 26 weeks ended December 31, 1999. The increase was due to additional selling costs resulting from higher sales in calendar year 2000 and additional marketing costs associated with our new company branding initiative. Operating expenses include charges allocated by Harris to us for legal, financial and other administrative expenses of $1.2 million for the combined 26 weeks ended December 31, 1999. As a percentage of sales, SG&A costs decreased to 19.7% for the 26 weeks ended December 29, 2000 from 23.4% for the combined 26 weeks ended December 31, 1999.

Intangible Assets

Amortization of intangible assets increased to $15.3 million for the 26 weeks ended December 29, 2000 from $3.8 million for the same time period in calendar year 1999. The increase was the result of goodwill and other certain intangible assets that were recorded in connection with the acquisitions of No Wires Needed, B.V. in May 2000 and SiCOM, Inc. in October 2000. Additionally, 26 weeks of amortization was recognized in calendar year 2000 on the opening balance sheet intangible assets versus seven weeks in calendar year 1999. These assets are being amortized over their useful lives ranging from 5 to 11 years.

Results of Certain Operations Sold

On March 16, 2001, we sold the assets of our Discrete Power products group to Fairchild. The results of operations of the Discrete Power products group have been segregated and separately reported below operating income.

Interest Expense

Interest expense for the 26 weeks ended December 29, 2000 is not comparable to interest expense for the combined 26 weeks ended December 31, 1999 due to changes in our debt and cash positions during those time periods.

Extraordinary Item

During the 26 weeks ended December 29, 2000, we repurchased $51.0 million of our outstanding 13.25% Senior Subordinated Notes in the open market. In connection with the early extinguishment of debt, we recorded extraordinary charges (net of tax effect) of $5.9 million. The extraordinary charges consisted of the write-off of deferred financing fees and pre-payment penalties.

Tax Expense

The tax provision for the 26 weeks ended December 29, 2000 is not comparable to the pro forma tax benefit for the combined 26 weeks ended December 31, 1999 due to the differences in our tax structure as compared to that of our combined tax reporting structure with that of the semiconductor business of Harris.

Backlog

We had backlog at December 29, 2000 of $256.9 million compared to $192.4 million at December 31, 1999. The increase was due to increased demand for our communications products and improved market conditions. Approximately $72.3 million and $61.6 million of our December 29, 2000 and December 31, 1999 backlog was related to our Discrete Power products group.

FISCAL YEAR 2000 COMPARED WITH FISCAL YEAR 1999

The following table sets forth statement of operations data in dollars and as percentage of revenue for Intersil and its predecessor for the periods indicated:

	Fiscal Year Ended		Fiscal Year Ended	
(Dollars in thousands)	Combined June 30, 2000	Predecessor July 2, 1999	Combined June 30, 2000	Predecessor July 2, 1999
Revenue				
Wireless Access	$ 78,745	$ 28,906	17.6%	7.8%
Communications Analog	164,689	120,619	36.7	32.5
Other Analog	204,886	221,516	45.7	59.7
Total	448,320	371,041	100.0	100.0
Costs and expenses				
Cost of product sales	255,617	225,278	57.0	60.7
Research and development	67,833	58,363	15.1	15.7
Selling, general and administrative	99,461	77,713	22.2	20.9
Harris corporate expense allocation	1,164	9,303	0.3	2.5
Intangible amortization	9,350	2,414	2.1	0.7
In-process research and development	20,239	—	4.5	—
Other	1,178	—	0.3	—
Operating loss	(6,522)	(2,030)	–1.5	–0.5
Loss on sale of Malaysian operation	24,825	—	5.5	—
Interest, net	38,106	(1,231)	8.5	–0.3
Loss before sale of certain operations, income taxes, extraordinary item and cumulative effect of a change in accounting principle	(69,453)	(799)	–15.5	–0.2
Operating results of certain operations disposed of during 2001				
Net sales	205,865	161,677	45.9	43.6
Costs and expenses	(157,022)	(139,499)	–35.0	–37.6
	48,843	22,178	10.9	6.0
Income (loss) before income taxes, extraordinary item and cumulative effect of a change in accounting principle	(20,610)	21,379	–4.6	5.8
Income taxes (benefit)	(391)	(6,027)	–0.1	–1.6
Income (loss) before extraordinary item	(20,219)	27,406	–4.5	7.4
Extraordinary item — loss on extinguishment of debt, net of tax effect	(25,518)	—	–5.7	—
NET INCOME (LOSS)	$ (45,737)	$ 27,406	–10.2%	7.4%

Note: Amounts may not add due to rounding.

Revenue

Revenue for the fiscal year 2000 increased 20.8% to $448.3 million from $371.0 million in the fiscal year 1999. This growth is the result of increased demand for communications products and overall improved market conditions. Wireless Access sales growth of 172% was driven by increased market acceptance of our PRISM® products.

Geographically, 44.0%, 28.7% and 27.3% of product sales were derived in North America, Asia/Pacific and Europe, respectively, during fiscal year 2000, compared to 48.2%, 23.3% and 28.5%, respectively, in fiscal year 1999. This change in mix is the result of increased demand from Asia-based customers and from other customers moving manufacturing facilities to Asia.

Gross Margin

Gross margin on product sales increased 32.2% to $192.7 million in fiscal year 2000 from $145.8 million in fiscal year 1999. As a percentage of sales, gross margin was 43.0% in fiscal year 2000 as compared to 39.3% in fiscal year 1999. This increase was primarily due to increased capacity utilization in all three fabrication facilities, improved product costs from yield enhancements and manufacturing cost improvement projects. Additionally, wireless products, which generally carry higher margins, increased as a percentage of our total sales. Headcount reductions and a decrease in depreciation expense resulting from a revaluation of our property and equipment due to purchase accounting also contributed to the margin improvement.

R&D

R&D expenses increased 16.2% to $67.8 million in fiscal year 2000 from $58.4 million in fiscal year 1999. The increase was the result of our continued investment in PRISM® chip sets and in power management integrated circuits, focusing in the categories of communications and computing products. As a percentage of sales, R&D expenses declined slightly to 15.1% in fiscal year 2000 from 15.7% in fiscal year 1999.

In-Process Research and Development

In connection with the acquisition of the semiconductor business of Harris, we allocated $20.2 million of the purchase price to in-process R&D projects. These projects were in various stages of completion ranging from 35%–90%. The present value of $29.0 million of in-process R&D was primarily determined by discounting 10 year after tax cash flow projections of the individual projects using a discount rate of 20%. The value was then reduced by negative goodwill resulting from the acquisition.

At the date of acquisition, the development of these projects had not yet reached technological feasibility and the in-process R&D had no alternative future uses. Accordingly, these costs were expensed as a one-time charge to earnings in the combined fiscal year ended June 30, 2000.

SG&A

SG&A costs increased 28.0% to $99.5 million in fiscal year 2000 from $77.7 million in fiscal year 1999. The increase was due to additional selling costs resulting from higher sales in fiscal year 2000 and additional marketing costs associated with our new company branding initiative. Operating expenses include charges allocated by Harris to us for legal, financial and other administrative expenses of $1.2 million for the 6 weeks ended August 13, 1999, and $9.3 million for the 12 months ended July 2, 1999. As a percentage of sales, SG&A costs increased to 22.2% in fiscal year 2000 from 20.9% in fiscal year 1999.

Intangible Assets

Certain intangible assets were recorded on the opening balance sheet of Intersil as part of purchase accounting. We also recorded goodwill in June 2000 as a result of the acquisition of No Wires Needed B.V. These assets are being amortized over their useful lives ranging from 5 to 11 years.

Loss on Sale of Malaysian Operation

On June 30, 2000, we completed the sale of our Kuala Lumpur, Malaysia-based semiconductor assembly and test operations to ChipPAC. As consideration for the sale, we received approximately $52.5 million in cash and $15.8 million in ChipPAC preferred convertible stock and we recognized a non-recurring, non-cash charge of $24.8 million for loss on sale.

Results of Certain Operations Sold

On March 16, 2001, we sold the assets of our Discrete Power products group to Fairchild. The results of operations of the Discrete Power products group have been segregated and separately reported below operating income.

Interest Expense

In connection with the acquisition of the semiconductor business of Harris, we entered into new credit facilities. Pursuant to the initial public offering in February 2000, we retired a significant portion of those same credit facilities. Interest expense for the fiscal year 2000 is not comparable to interest expense for the combined fiscal year 1999.

Extraordinary Item

On February 25, 2000, we issued 22,000,000 shares of our Class A Common Stock in a registered underwritten initial public offering. From the proceeds of the offering, we repaid approximately $419.0 million of debt incurred through the acquisition of the semiconductor business. In connection with the early extinguishment of debt, we recorded extraordinary charges (net of tax effect) of $25.5 million. The extraordinary charges consisted of the write-off of deferred financing fees and pre-payment penalties.

Tax Expense

The tax benefit for the 12 months ended June 30, 2000 is not comparable to the 12 months ended July 2, 1999, due to the differences in our tax structure as compared to that of the semiconductor business of Harris.

Backlog

We had backlog at June 30, 2000 of $259.5 million compared to $174.0 million at July 2, 1999. The increase was due to increased demand for our communications products and improved market conditions.

LIQUIDITY AND CAPITAL RESOURCES

Our capital requirements depend on a variety of factors, including but not limited to, the rate of increase or decrease in our existing business base; the success, timing and amount of investment required to bring new products on-line; revenue growth or decline; and potential acquisitions. We anticipate that our operating cash flow and our cash on hand will be sufficient to meet our working capital and capital expenditure needs for the foreseeable future. As of December 28, 2001, our total shareholders' equity was $1,057.2 million. The following table sets forth the Company's future contractual obligations and off balance sheet arrangements as of December 28, 2001:

(In millions)	2002	2003	2004	2005	2006
Future minimum lease commitments	$ 3.8	$ 2.4	$ 1.3	$ 0.8	$ 0.3
Open capital equipment purchase commitments	$ 8.0	—	—	—	—
Open raw material purchase commitments	$ 8.4	—	—	—	—
Revolving credit facility (unused)	$ 25.0	—	—	—	—
Standby letters of credit	$ 3.4	—	—	—	—

Net cash provided by operating activities for the 52 weeks ended December 28, 2001 was $28.7 million. Net cash provided by investing activities for the 52 weeks ended December 28, 2001 was $284.4 million, primarily from the proceeds of the sale of the assets of the Discrete Power products group to Fairchild. Net cash used in financing activities for the 52 weeks ended December 28, 2001 was $63.4 million, primarily for the repayment of all of our outstanding debt. Our cash and cash equivalents balance at December 28, 2001 was $601.5 million.

RECEIVABLES AND INVENTORIES

Trade accounts receivable less the allowance for collection losses totaled $55.2 million at December 28, 2001 compared to $124.0 million at December 29, 2000. Inventories decreased to $67.9 million at December 28, 2001 from $126.2 million at December 29, 2000. The decreases were primarily due to the sale of the assets of our Discrete Power products group to Fairchild.

Distributor reserves fluctuate from year to year based on the level of inventory at distributors. The reserve decreased 52.6% to $3.8 million at December 28, 2001 from $8.0 million at December 29, 2000 resulting from the sale of the assets of the Discrete Power products group.

CAPITAL EXPENDITURES

Capital expenditures were $40.6 million, $27.5 million and $38.8 million for the 52 weeks ended December 28, 2001, the 26 weeks ended December 29, 2000 and the 46 weeks ended June 30, 2000, respectively.

TRANSACTIONS WITH RELATED AND CERTAIN OTHER PARTIES

Citicorp Mezzanine Partners, L.P. contributed $30.0 million in cash to us in exchange for the 13.5% subordinated PIK Note due 2010 and warrants to purchase 3,703,707 shares of our Class A Common Stock. The 13.5% Subordinated PIK Note due 2010 was repaid in full with the proceeds of our initial public offering and, as a result of early repayment, the number of shares subject to such warrants was reduced to 2,222,224 shares. We contributed the $30.0 million from Citicorp Mezzanine Partners, L.P. to Intersil Communications as a capital contribution. The general partner of Citicorp Mezzanine Partners, L.P. is an affiliate of Citicorp Venture Capital Ltd. Citicorp Venture Capital Ltd. owns an interest in Sterling Holding Company, LLC, or Sterling, one of our principal shareholders. Sterling also owns approximately 25.3% of Class A Common Stock of Fairchild Semiconductor International, Inc., one of our competitors, and approximately 27.1% of Class A Common Stock of ChipPAC, Inc., one of our suppliers. We own approximately 2.2% of Class A Common Stock of ChipPAC, Inc.

Sterling, Harris and certain members of our senior management entered into a Shareholders' Agreement containing certain agreements among the shareholders regarding our capital stock and corporate governance. We exercised our option under the Shareholders' Agreement to repurchase from Sterling a total of 1,833,333 shares of our Class A Common Stock for an aggregate purchase price of $137,500 to reissue to our employees.

We purchased from Harris selected portions of its semiconductor business. Harris entered into various agreements with us, including the Intellectual Property Agreement, the Patent Assignment and Services Agreement, the License Assignment Agreement, the Secondary Trademark Assignment and License Agreement, the Harris Trademark License Agreement and the Royalty Agreement.

- The Intellectual Property Agreement provides for the assignment by Harris to us of its entire ownership, right, title and interest in some intangible property rights owned by Harris and specific to the semiconductor business.
- The Patent Assignment and Services Agreement provides for the assignment by Harris to us, subject to pre-existing license rights, of about 1,300 patent rights. Harris retained the rights to some patents for up to three years before assigning their entire right, title and interest therein to us (provided that the patents are not in litigation at the time, and no royalties are owed on licenses to the patents). During the interim preceding the assignment of these retained patents, Harris granted us a worldwide, royalty-free, non-exclusive license thereto, without the right to sublicense.
- The License Assignment Agreement provides for the assignment by Harris to us of certain license agreements that may be assigned without the consent of third party licensors and licensees and also provides that Harris will provide us with the economic benefit of certain other material license agreements that may not be assigned without the consent of third party licensors and licensees.
- The Secondary Trademark Assignment and License Agreement provides for the assignment by Harris to us of some trademarks related to products of the semiconductor business and provides that we grant back to Harris worldwide, non-exclusive, royalty-free licenses recognizing transitional use of some visible trademarks assigned by Harris to us.
- The Harris Trademark License Agreement provides for the grant by Harris to us of non-exclusive, royalty-free licenses recognizing transitional use of some visible trademarks and product-embedded trademarks, which embedded trademarks will not be eliminated until the relevant product is discontinued.
- The Royalty Agreement provides for our payment to Harris of 2% of the net sales for the Prism® chip sets that are compliant with the IEEE standards 802.11-1997 and 802.11b, but excludes any chip sets that have had substantial redesigns since the contract date. This obligation exists until August 13, 2004.

In June 2000, we sold our assembly and test facilities in Malaysia along with related intellectual property to ChipPAC in exchange for $52.5 million in cash and preferred stock of ChipPAC that has an aggregate liquidation preference of $17.5 million. We also assigned to ChipPAC patents, copyrights and technical information used exclusively in or associated exclusively with our assembly and test facilities in Malaysia and granted ChipPAC a worldwide, non-exclusive, royalty-free license under other of our patents, copyrights and technical information that is also used in or related to the operation of the assembly and test facilities in Malaysia. Any intellectual property rights in the bonding diagrams, test programs, mask works and test boards uniquely related to our products for which ChipPAC will provide packaging and test services under the supply agreement are licensed to ChipPAC only for use in providing those services. We also entered into a long term joint services agreement with ChipPAC in connection with the sale under which each party is required to assist the other in a smooth transition of each party's operations following the sale.

Under our supply agreement with ChipPAC, we have agreed to continue to use the Malaysian facility to provide 100% (until June 30, 2003), 90% (from July 1, 2003 to June 30, 2004) and 80% (from July 1, 2004 to June 30, 2005) of our semiconductor package configuration assembly and test requirements for all products assembled and tested at the Malaysian facility on the date of the supply agreement and any new or additional products we may develop after that date. In addition, ChipPAC will ensure that we are allocated 100% of the utilized capacity that was in place on the date of the supply agreement. One of the principal shareholders of ChipPAC is an affiliate of Sterling, our principal shareholder. The terms of the agreements listed above were the result of arms-length negotiations and in our opinion are no less favorable to us than those that could be obtained from non-affiliated parties.

CRITICAL ACCOUNTING POLICIES

In response to the SEC's financial reporting release, FR-60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies*, we have selected our more subjective accounting estimation processes for purposes of explaining the methodology used in calculating the estimate in addition to the inherent uncertainties pertaining to the estimate and the possible effects on the Company's financial condition. The three accounting estimation processes discussed below are the allowance for collection losses on trade receivables, reserves for excess or obsolete inventory, and distributor reserves. These estimation processes affect current assets and liabilities and are therefore critical in assessing the financial and operating status of the Company. These estimates involve certain assumptions that if incorrect could create an adverse impact on the Company's operations and financial position.

The allowance for collection losses was $0.5 million on gross trade receivables of $55.7 million at December 28, 2001. This allowance is used to state trade receivables at a net realizable value or the amount that we estimate will be collected on our gross receivables as of December 28, 2001. As the amount that we will truly collect on the receivables outstanding as of December 28, 2001 cannot be known with exact certainty as of this document's effective date, we rely on prior experience. Our historical collection losses have been typically infrequent with write-offs of trade receivables being less than 1% of sales. We maintain a general allowance of approximately 0.5% to 1.0% of a gross trade receivable balance in order to allow for future collection losses that arise from customer accounts that do not indicate the inability to pay but will have such an inability. We also maintain a specific allowance for customer accounts that we know may not be collectible due to various reasons such as bankruptcy and other customer liquidity issues. We analyze our trade receivable portfolio based on the age of each customer's invoice. In this way, we can identify those accounts that are more likely than not to have collection problems. We then reserve a portion or all of the customer's balance.

The reserve for excess or obsolete inventory was $28.1 million at December 28, 2001. The reserve for excess or obsolete inventory is used to state our inventories at the lower of standard cost or market as described in the footnotes to the financial statements. As the amount of inventoriable costs that we will truly recoup through sales on our inventory levels as of December 28, 2001 cannot be known with exact certainty as of this document's effective date, we rely on past sales experience and future sales forecasts. In analyzing our inventory levels, we classify inventory as either excess or obsolete. We classify inventory as obsolete if we have withdrawn it from the marketplace or if we have had no sales of the product for the past 12 months and no sales forecasted for the next 12 months. We reserve 100% of the standard cost of obsolete inventory. We classify inventory as excess if we have quantities of product greater than the amounts we have sold in the past 12 months or have forecasted to sell in the next 12 months. We reserve approximately 50% of the standard cost of the excess inventory. We believe that 50% represents the value of excess inventory we would not be able to recover due to our new product (next generation) introductions and other technological advancements.

Distributor reserves were $3.8 million at December 28, 2001. Revenue is recognized from sales to all customers, including distributors, when a product is shipped. Sales to distributors are made under agreements, which provide the distributors price protection on and rights to periodically exchange a percentage of unsold inventory they hold. Accordingly, the distributor reserves are amounts within the liability section of the balance sheet that estimate the amount of inventory adjustments we will encounter in the future on the inventory that is held by distributors as of our balance sheet date. As the amount of inventory held by distributors as of December 28, 2001 that will truly be adjusted in the future cannot be known with exact certainty as of this document's effective date, we rely on historical distributor transactions. Our distributor reserves comprise two components that are reasonably estimatable. The first component of our distributor reserves is our price protection reserve, which protects the distributors' gross margins in the event of falling prices. This reserve is based on the relationship of historical credits issued to distributors in relation to historical inventory levels and price paid by the distributor as applied to current inventory levels. The second component is a stock rotation reserve, which is based on the percentage of sales made to certain distributors in Europe and North America whereby distributors can periodically exchange a percentage of older inventories with newer products.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Financial Accounting Standards No. 142 (FAS 142), "Goodwill and Other Intangible Assets." Under the new rules, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. We will apply the new accounting rules beginning December 29, 2001. Based on the value of the definite lived assets capitalized as of December 28, 2001, amortization expense is expected to decline by approximately $34.8 million ($20.4 million after tax, or $0.19 per diluted share) in 2002. Approximately $4.5 million of unamortized intangible assets attributable to assembled workforce will be reclassified to goodwill in 2002. We have completed the first of the required impairment tests of goodwill. This test indicates that there is no impairment of existing goodwill under the provisions of FAS 142.

RECENT DEVELOPMENTS

On May 23, 2001, our shareholders approved the change of our name from "Intersil Holding Corporation" to "Intersil Corporation." At the same time, our wholly owned subsidiary changed its name from "Intersil Corporation" to "Intersil Communications, Inc." Our name was changed because we are not simply a holding company, but are actively involved in the operations and supervision of management of our business, some of which is conducted through our subsidiaries.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We, in the normal course of doing business, are exposed to the risks associated with foreign currency exchange rates and changes in interest rates. We employ established policies and procedures governing the use of financial instruments to manage our exposure to these risks. At December 28, 2001, we had open foreign exchange contracts with a notional amount of $9.6 million, which was to hedge forecasted foreign cash flow commitments up to six months. As hedges on forecasted foreign cash flow commitments do not qualify for deferral, gains and losses on changes in the fair market value of the foreign exchange contracts are recognized in income. Total net gains on foreign exchange contracts for the 52 weeks ended December 28, 2001 was $0.9 million. During the 52 weeks ended December 28, 2001, we purchased and sold $25.8 million of foreign exchange forward contracts. The derivatives were also recognized on the balance sheet at their fair value of $0.5 million at December 28, 2001.

Our hedging activities provide only limited protection against currency exchange risks. Factors that could impact the effectiveness of our hedging programs include accuracy of sales estimates, volatility of currency markets and the cost and availability of hedging instruments. A 10% adverse change in currency exchange rates for our foreign currency derivatives held at December 28, 2001 would have an impact of approximately $1.2 million on the fair values of these instruments. This qualification of exposure to the market risk associated with foreign exchange financial instruments does not take into account the offsetting impact of changes in the fair values of foreign denominated assets, liabilities and firm commitments.

SELECTED FINANCIAL DATA

The following table sets forth selected financial data for Intersil and its predecessor. The historical financial data as of and for the fiscal year ended 1999 and for the six weeks ended August 13, 1999 are derived from our predecessor's audited consolidated financial statements included elsewhere in this report. The historical financial data as of and for the fiscal years ended 1997 and 1998, which are not included elsewhere in this report, are derived from our predecessor's audited consolidated financial statements, respectively. The historical financial data as of and for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, and the 52 weeks ended December 28, 2001 are derived from our audited consolidated financial statements included elsewhere in this report. This information should be read in conjunction with the consolidated financial statements included elsewhere in this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations." For fiscal years 1997 and 1998, the results of operations of our Discrete Power products group are not available from our predecessor's records.

SELECTED FINANCIAL DATA CONTINUED

(Dollars in millions, except per share amounts)	Predecessor Fiscal Years 1997	1998	1999	Predecessor 6 Wks Ended August 13, 1999	Successor 46 Wks Ended June 30, 2000	Successor 26 Wks Ended December 29, 2000	Successor 52 Wks Ended December 28, 2001
STATEMENT OF OPERATIONS DATA:							
Revenue	$ 545.3	$ 576.8	$ 371.0	$ 36.6	$ 411.7	$ 330.9	$ 481.1
Costs and expenses							
Gross margin	199.3	207.5	145.8	12.0	180.8	169.5	222.5
Research and development	75.2	75.1	58.4	7.5	60.3	47.0	106.1
Selling, general and administrative	99.3	98.2	77.7	10.1	89.4	65.3	93.5
Harris corporate expense allocation	10.0	10.0	9.3	1.2	—	—	—
Intangible amortization	2.3	2.3	2.4	0.3	9.0	15.3	44.2
In-process research and development	—	—	—	—	20.2	25.4	—
Impairment of long-lived assets	—	—	—	—	—	—	7.6
Restructuring	—	—	—	—	—	—	32.4
Other	—	—	—	—	1.2	—	—
Operating income (loss)	12.5	21.9	(2.0)	(7.1)	0.7	16.5	(61.3)
Loss on sale of Malaysian operation	—	—	—	—	24.8	—	—
Impairment on investments	—	—	—	—	—	—	8.2
Interest, net	(0.6)	(0.9)	(1.2)	(0.1)	38.3	(2.6)	(18.6)
Income (loss) before sale of certain operations, income taxes, extraordinary item and cumulative effect of a change in accounting principle	13.1	22.8	(0.8)	(7.0)	(62.4)	19.0	(50.9)
Operating results of certain operations disposed of during 2001							
Net sales	—	—	161.7	20.7	185.1	104.5	38.5
Costs and expenses	—	—	(139.5)	(16.8)	(140.2)	(79.7)	(41.5)
	—	—	22.2	3.9	44.9	24.8	(3.0)
Gain on sale of certain operations	—	—	—	—	—	—	168.4
	—	—	22.2	3.9	44.9	24.8	165.4
Income (loss) before income taxes, extraordinary item and cumulative effect of a change in accounting principle	13.1	22.8	21.4	(3.1)	(17.5)	43.9	114.5
Income taxes (benefit)	1.9	9.9	(6.0)	(0.1)	(0.3)	30.8	62.4
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	11.2	12.9	27.4	(3.0)	(17.2)	13.1	52.1
Extraordinary item — loss on extinguishment of debt, net of tax effect	—	—	—	—	(25.5)	(5.9)	(12.2)
Income (loss) before cumulative effect of a change in accounting principle	11.2	12.9	27.4	(3.0)	(42.7)	7.2	39.9
Cumulative effect of adoption of FAS 133, net of tax effect	—	—	—	—	—	(0.2)	—
Net income (loss)	11.2	12.9	27.4	(3.0)	(42.7)	7.0	39.9
Preferred dividends	—	—	—	—	5.4	—	—
NET INCOME (LOSS) TO COMMON SHAREHOLDERS	**$ 11.2**	**$ 12.9**	**$ 27.4**	**$ (3.0)**	**$ (48.1)**	**$ 7.0**	**$ 39.9**
Basic earnings (loss) per share:							
Income (loss) before extraordinary item					$ (0.30)	$ 0.13	$ 0.49
Extraordinary item					(0.33)	(0.06)	(0.11)
INCOME (LOSS) PER SHARE					**$ (0.63)**	**$ 0.07**	**$ 0.38**
Diluted earnings (loss) per share:							
Income (loss) before extraordinary item					$ (0.30)	$ 0.13	$ 0.48
Extraordinary item					(0.33)	(0.06)	(0.11)
INCOME (LOSS) PER SHARE					**$ (0.63)**	**$ 0.07**	**$ 0.37**
Weighted average common share outstanding:							
BASIC					**76.7**	**101.0**	**105.7**
DILUTED					**76.7**	**105.2**	**108.9**
BALANCE SHEET DATA (END OF PERIOD):							
Cash and cash equivalents	$ —	$ —	$ —	$ 1.4	$ 211.9	$ 352.6	$ 601.5
Total assets	733.3	810.3	761.2	736.1	933.9	1,229.8	1,200.2
Long-term debt, including current portion	1.4	4.1	4.6	4.5	116.6	65.5	—
Total shareholders' equity/business equity	646.2	699.1	658.9	657.3	679.0	1,011.0	1,057.2

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)	Predecessor Fiscal Year Ended July 2, 1999	Predecessor 6 Wks Ended August 13, 1999	Successor 46 Wks Ended June 30, 2000	Successor 26 Wks Ended December 29, 2000	Successor 52 Wks Ended December 28, 2001
Revenue					
Product sales	$ 371,041	$ 36,627	$ 411,723	$ 330,895	$ 481,066
Costs and expenses					
Cost of product sales	225,278	24,690	230,927	161,391	258,615
Research and development	58,363	7,517	60,316	46,990	106,087
Selling, general and administrative	77,713	10,092	89,369	65,305	93,526
Harris corporate expense allocation	9,303	1,164	—	—	—
Intangible amortization	2,414	326	9,024	15,271	44,175
In-process research and development	—	—	20,239	25,440	—
Impairment of long-lived assets	—	—	—	—	7,583
Restructuring	—	—	—	—	32,419
Other	—	—	1,178	—	—
Operating income (loss)	(2,030)	(7,162)	670	16,498	(61,339)
Loss on sale of Malaysian operation	—	—	24,825	—	—
Interest expense	129	—	41,924	6,788	2,263
Interest income	(1,360)	(111)	(3,707)	(9,335)	(20,873)
Impairment on investments	—	—	—	—	8,242
Income (loss) before sale of certain operations, income taxes, extraordinary item and cumulative effect of a change in accounting principle	(799)	(7,051)	(62,372)	19,045	(50,971)
Operating results of certain operations disposed of during 2001					
Net sales	161,677	20,709	185,127	104,557	38,460
Costs and expenses	(139,499)	(16,789)	(140,234)	(79,746)	(41,447)
	22,178	3,920	44,893	24,811	(2,987)
Gain on sale of certain operations	—	—	—	—	168,437
	22,178	3,920	44,893	24,811	165,450
Income (loss) before income taxes, extraordinary item and cumulative effect of change in accounting principle	21,379	(3,131)	(17,479)	43,856	114,479
Income taxes (benefit)	(6,027)	(102)	(289)	30,759	62,405
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	27,406	(3,029)	(17,190)	13,097	52,074
Extraordinary item — loss on extinguishment of debt, net of tax effect	—	—	(25,518)	(5,891)	(12,185)
Income (loss) before cumulative effect of a change in accounting principle	27,406	(3,029)	(42,708)	7,206	39,889
Cumulative effect of adoption of FAS 133, net of tax effect	—	—	—	(197)	—
Net income (loss)	27,406	(3,029)	(42,708)	7,009	39,889
Preferred dividends	—	—	5,391	—	—
NET INCOME (LOSS) TO COMMON SHAREHOLDERS	**$ 27,406**	**$ (3,029)**	**$ (48,099)**	**$ 7,009**	**$ 39,889**
Basic income (loss) per share:					
Income (loss) before extraordinary item			$ (0.30)	$ 0.13	$ 0.49
Extraordinary item			(0.33)	(0.06)	(0.11)
INCOME (LOSS) PER SHARE			**$ (0.63)**	**$ 0.07**	**$ 0.38**
Diluted income (loss) per share:					
Income (loss) before extraordinary item			$ (0.30)	$ 0.13	$ 0.48
Extraordinary item			(0.33)	(0.06)	(0.11)
INCOME (LOSS) PER SHARE			**$ (0.63)**	**$ 0.07**	**$ 0.37**
Weighted average common shares outstanding (in millions):					
BASIC			**76.7**	**101.0**	**105.7**
DILUTED			**76.7**	**105.2**	**108.9**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)	Predecessor Fiscal Year Ended July 2, 1999	Predecessor 6 Wks Ended August 13, 1999	Successor 46 Wks Ended June 30, 2000	Successor 26 Wks Ended December 29, 2000	Successor 52 Wks Ended December 28, 2001
Net income (loss)	$ 27,406	$ (3,029)	$ (42,708)	$ 7,009	$ 39,889
Other comprehensive income (loss):					
Currency translation adjustments	(574)	2,475	1,636	(3,309)	(366)
Unrealized gain on available-for-sale securities	—	—	—	—	1,676
COMPREHENSIVE INCOME (LOSS)	**$ 26,832**	**$ (554)**	**$ (41,072)**	**$ 3,700**	**$ 41,199**

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(In thousands)	June 30, 2000	December 29, 2000	December 28, 2001
ASSETS			
Current assets			
Cash and cash equivalents	$ 211,940	$ 352,597	$ 601,453
Trade receivables, less allowances for collection loss ($1,341 as of June 30, 2000, $736 as of December 29, 2000 and $534 as of December 28, 2001)	111,695	123,979	55,178
Inventories	126,481	126,198	67,888
Prepaid expenses	10,645	10,569	9,122
Income tax receivable	1,254	—	—
Deferred income taxes	25,768	27,756	33,807
Total current assets	487,783	641,099	767,448
Other assets			
Property, plant and equipment, less allowances for depreciation	225,484	235,559	140,068
Intangibles, less accumulated amortization	190,150	307,183	241,078
Investments	28,800	28,800	39,233
Other	1,721	17,127	12,406
Total other assets	446,155	588,669	432,785
TOTAL ASSETS	**$ 933,938**	**$ 1,229,768**	**$ 1,200,233**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables	$ 36,991	$ 43,209	$ 24,323
Retirement plan accruals	6,228	5,507	3,051
Accrued compensation	32,398	28,203	27,435
Accrued interest and sundry taxes	10,512	6,684	2,792
Exit costs	—	—	6,037
Restructuring costs	—	—	17,875
Other accrued items	22,863	26,045	26,454
Distributor reserves	7,366	8,002	3,792
Income taxes payable	—	—	24,732
Long-term debt — current portion	404	484	—
Total current liabilities	116,762	118,134	136,491
Other liabilities			
Deferred income taxes	21,992	35,632	6,494
Long-term debt	116,188	64,966	—
Shareholders' equity			
Preferred Stock, $0.01 par value, 100,000 shares authorized, no shares issued or outstanding	—	—	—
Class A Common Stock, $0.01 par value, voting; 300,000,000 shares authorized, 44,773,152 shares outstanding at June 30, 2000 and 68,099,740 shares outstanding at December 29, 2000, and 90,565,018 shares outstanding at December 28, 2001	448	680	906
Class B Common Stock, $0.01 par value, non-voting; 300,000,000 shares authorized, 49,746,482 shares outstanding at June 30, 2000 and 37,206,996 shares outstanding at December 29, 2000 and 16,282,475 shares outstanding at December 28, 2001	497	372	163
Additional paid-in capital	719,123	1,051,213	1,065,341
Retained earnings (deficit)	(42,708)	(35,699)	4,190
Unearned compensation	—	(3,857)	(1,056)
Accumulated other comprehensive income (loss)	1,636	(1,673)	(363)
Treasury shares, at cost, 498,000 shares	—	—	(11,933)
Total shareholders' equity	678,996	1,011,036	1,057,248
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 933,938**	**$ 1,229,768**	**$ 1,200,233**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Predecessor Fiscal Year Ended July 2, 1999	Predecessor 6 Wks Ended August 13, 1999	Successor 46 Wks Ended June 30, 2000	Successor 26 Wks Ended December 29, 2000	Successor 52 Wks Ended December 28, 2001
OPERATING ACTIVITIES:					
Net income (loss)	$ 27,406	$ (3,029)	$ (42,708)	$ 7,009	$ 39,889
Adjustments to reconcile net income (loss) to net cash provided by operating activities					
Depreciation and amortization	80,631	9,073	61,288	35,745	72,288
Provisions for inventory obsolescence	3,894	1,919	23,906	17,760	21,136
Write-off of in-process research and development	—	—	20,239	25,440	—
Write-off of unearned compensation	—	—	878	—	—
Loss on sale of Malaysian operation	—	—	24,825	—	—
Restructuring and impairments	—	—	—	—	48,244
Gain on sale of certain operations	—	—	—	—	(168,437)
Deferred income taxes	1,896	(4,756)	(4,680)	18,178	(35,189)
Changes in assets and liabilities:					
Trade receivables	10,001	14,532	(24,991)	(11,656)	68,801
Inventories	22,516	(3,568)	(5,668)	(16,850)	(4,133)
Prepaid expenses	933	674	(7,737)	364	1,447
Trade payables and accrued liabilities	(13,631)	(18,705)	42,599	(1,636)	(43,666)
Income taxes	(4,486)	4,430	2,290	4,642	27,096
Other	(17,911)	2,812	20,898	(16,322)	1,199
Net cash provided by operating activities	111,249	3,382	111,139	62,674	28,675
INVESTING ACTIVITIES:					
Proceeds from sale of Malaysian operation	—	—	52,500	—	—
Proceeds from sale of certain operations	—	—	—	—	338,016
Cash paid for acquired business	(1,335)	—	—	(3,649)	—
Long-term investments	—	—	—	—	(13,000)
Property, plant and equipment	(38,563)	(1,887)	(38,813)	(27,523)	(40,632)
Net cash provided by (used in) investing activities	(39,898)	(1,887)	13,687	(31,172)	284,384
FINANCING ACTIVITIES					
Proceeds from offering	—	—	513,114	158,983	—
Proceeds from exercise of stock options	—	—	1,985	4,574	10,104
Proceeds from borrowings	800	—	—	—	—
Payments of borrowings	(302)	(32)	(435,204)	(54,226)	(61,545)
Repurchase of treasury shares	—	—	—	—	(11,933)
Net cash transfer and billings from (to) parent	(67,030)	(1,198)	—	—	—
Net cash provided by (used in) financing activities	(66,532)	(1,230)	79,895	109,331	(63,374)
Effect of exchange rates on cash and cash equivalents	(4,819)	1,177	(158)	(176)	(829)
Net increase in cash and cash equivalents	—	1,442	204,563	140,657	248,856
Cash and cash equivalents at the beginning of the period	—	—	7,377	211,940	352,597
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ —	$ 1,442	$ 211,940	$ 352,597	$ 601,453
SUPPLEMENTAL DISCLOSURES — NON-CASH ACTIVITIES:					
EXCHANGE OF PREFERRED STOCK FOR COMMON STOCK			$ 89,500	$ —	$ —
ADDITIONAL PAID-IN-CAPITAL FROM TAX BENEFIT ON EXERCISE ON NON-QUALIFIED STOCK OPTIONS			$ 2,132	$ 1,709	$ 4,042
COMMON STOCK ISSUED IN ACQUISITION OF NO WIRES NEEDED B.V.			$ 111,348	$ —	$ —
COMMON STOCK ISSUED IN ACQUISITION OF SiCOM, INC.			$ —	$ 162,620	$ —
PREFERRED STOCK RECEIVED FROM SALE OF MALAYSIAN OPERATION			$ 15,800	$ —	$ —

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Common Stock Class A	Common Stock Class B	Additional Paid-In Capital	Retained Earnings (Deficit)	Unearned Compensation	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total
Balance at July 1, 2000	$ 448	$ 497	$ 719,123	$ (42,708)	$ —	$ 1,636	$ —	$ 678,996
Net income	—	—	—	7,009	—	—	—	7,009
Shares issued in secondary public offering	35	—	158,948	—	—	—	—	158,983
Shares issued under Stock Option Plan	4	—	1,933	—	—	—	—	1,937
Shares issued under Employee Stock Purchase Plan	2	—	4,340	—	—	—	—	4,342
Shares issued on exercise of warrants	35	—	(30)	—	—	—	—	5
Shares issued for acquisition of SiCOM, Inc.	31	—	166,899	—	(4,310)	—	—	162,620
Manatee Investment Corp. share exchange	45	(45)	—	—	—	—	—	—
Sterling Holding Co., LLC share exchange	80	(80)	—	—	—	—	—	—
Amortization of unearned compensation	—	—	—	—	453	—	—	453
Foreign currency translation	—	—	—	—	—	(3,309)	—	(3,309)
Balance at December 29, 2000	$ 680	$ 372	$ 1,051,213	$ (35,699)	$ (3,857)	$ (1,673)	$ —	$ 1,011,036
Net income	—	—	—	39,889	—	—	—	39,889
Shares issued under Stock Option Plan	6	—	10,076	—	—	—	—	10,082
Shares issued under Employee Stock Purchase Plan	2	—	4,060	—	—	—	—	4,062
Shares issued on exercise of warrants	9	—	(8)	—	—	—	—	1
Sterling Holding Co., LLC share exchange	209	(209)	—	—	—	—	—	—
Amortization of unearned compensation	—	—	—	—	2,801	—	—	2,801
Unrealized gain on available-for-sale securities	—	—	—	—	—	1,676	—	1,676
Foreign currency translation	—	—	—	—	—	(366)	—	(366)
Shares repurchased	—	—	—	—	—	—	(11,933)	(11,933)
BALANCE AT DECEMBER 28, 2001	**$ 906**	**$ 163**	**$ 1,065,341**	**$ 4,190**	**$ (1,056)**	**$ (363)**	**$ (11,933)**	**$ 1,057,248**

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A — ORGANIZATION AND BASIS OF PRESENTATION

Organization

Intersil Corporation (Intersil or Successor) was formed on August 13, 1999 through a series of transactions in which Intersil acquired the semiconductor business of Harris Corporation (Harris or Predecessor). Intersil and its wholly owned domestic and foreign subsidiaries include the operations of the Predecessor.

Basis of Presentation

The Successor's consolidated financial statements subsequent to August 13, 1999 include the accounts of Intersil and Intersil Communications Inc., Intersil's wholly-owned subsidiaries (collectively, the Company). All material intercompany transactions have been eliminated in consolidation. The consolidated statements of operations, comprehensive income (loss) and cash flows for the fiscal year ended July 2, 1999 and the six weeks ended August 13, 1999 include the accounts of the Predecessor company.

The Predecessor's consolidated statements of operations include all revenues and costs attributable to the semiconductor business. For cost of sales, material costs are directly attributable to a product line and are charged accordingly. Indirect costs are assigned using activity based costing. Operating expenses (engineering, marketing, and administrative and general) have been allocated to the product lines based on sales or labor, as appropriate. Harris corporate expense allocations were based on a percentage of the semiconductor business' net sales. Interest expense was provided on direct borrowings of the semiconductor business. Interest expense of Harris has not been allocated to the semiconductor business.

All of the allocations and estimates in the Predecessor's consolidated statements of operations are based on assumptions that management believes are reasonable under the circumstances. However, these allocations and estimates are not necessarily indicative of the costs that would have resulted if the semiconductor business had been operated on a stand-alone basis.

The semiconductor business sold products to other affiliated operations of Harris. Sales to these operations were not material.

On March 16, 2001, the Company sold the assets of its Discrete Power products group to Fairchild Semiconductor Corporation (Fairchild). The consolidated balance sheet as of December 28, 2001 has been reduced by the assets purchased and liabilities assumed by Fairchild.

Acquisition of Harris' Semiconductor Business

The total purchase price of the semiconductor business acquisition was $614.3 million, which included transaction costs of approximately $7.8 million and deferred financing costs of $12.2 million. The consideration paid by Intersil was $504.3 million in cash of which $420.0 million was financed through borrowings from senior credit facilities, 13.25% Senior Subordinated Notes and 13.5% Subordinated Holding Pay-In-Kind (PIK) Note and the issuance of a $90.0 million PIK Note to Harris.

The acquisition was accounted for using the purchase method of accounting and, accordingly, the operating results of the semiconductor business have been included in Intersil's consolidated financial statements since the date of acquisition. The total purchase price was allocated to the assets and liabilities of the semiconductor business based upon their approximate fair values. The fair values of the net assets acquired exceeded the purchase price resulting in negative goodwill. This negative goodwill was allocated to the identified intangibles, and property and equipment based on their relative fair values as follows (in millions):

Purchase price:	
Cash paid to Harris	$ 504.3
13.5% Subordinated PIK Note	90.0
Transaction costs and fees	20.0
TOTAL PURCHASE PRICE	**$ 614.3**

	Fair Value of Acquired Assets	Allocation of Excess Fair Value	Adjusted Fair Value
Net current assets	$ 160.6	$ —	$ 160.6
Other	17.2	—	17.2
Property and equipment	481.0	(153.2)	327.8
Developed technology	80.0	(23.9)	56.1
Customer base	33.0	(10.0)	23.0
In-process research and development	29.0	(8.8)	20.2
Assembled workforce	13.5	(4.1)	9.4
	$ 814.3	$ (200.0)	$ 614.3
EXCESS FAIR VALUE OF NET ASSETS ACQUIRED OVER PURCHASE PRICE	**$ 200.0**		

The appraisal of the acquired semiconductor business included $20.2 million of purchased in-process research and development, which was related to various products under development. This valuation represents the 10 year after tax cash flow of this in-process technology using a discount rate of 20%. The acquired technology had not yet reached technological feasibility and had no future alternative uses. Accordingly, it was written off at the time of the acquisition. The remaining definitive lived intangibles (developed technology and customer base) are being amortized over 7 to 11 years.

In connection with the acquisition of the semiconductor business, the Company formulated a restructuring plan that included the termination of the employment of 372 employees of the semiconductor business. At August 13, 1999, the Company recorded $11.0 million in severance benefits and this was included in the allocation of the acquisition cost. For the 46 weeks ended June 30, 2000 and the 26 weeks ended December 29, 2000, approximately $10.1 million and $10.9 million, respectively, of these restructuring costs had been paid out. As of June 30, 2000 and December 29, 2000, the restructuring liability was $0.9 million and $0.1 million, respectively. The Company completed all restructuring activities in August of calendar year 2000. Severance payments continued through March of calendar year 2001.

Pursuant to a Form 8-K filed on March 29, 2000, Intersil changed its fiscal year end from the Friday closest to June 30 to the Friday closest to December 31. The 26 weeks ended December 29, 2000 is referred to as stub year 2000.

NOTE B — SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year

The 1999 fiscal year includes the 52 weeks ended July 2, 1999; fiscal year 2000 includes the six weeks ended August 13, 1999 and the 46 weeks ended June 30, 2000; stub year 2000 includes the 26 weeks ended December 29, 2000; and, fiscal year 2001 includes the 52 weeks ended December 28, 2001.

Cash and Cash Equivalents

Cash equivalents consist primarily of highly liquid investments with maturities of three months or less when purchased.

Inventories

Inventories are carried at the lower of standard cost, which approximates actual cost, determined by the First-In-First-Out (FIFO) method, or market. Shipping and handling costs are classified as a component of cost of product sales in the consolidated statement of operations.

Property, Plant and Equipment

Machinery and equipment are carried on the basis of cost. The estimated useful lives of buildings range between 5 and 50 years. The estimated useful lives of machinery and equipment range between 3 and 10 years. Depreciation is computed by the straight-line method using the estimated useful life of the asset.

Investments in Available-for-Sale Securities

Investments identified as available-for-sale securities are carried at fair value as established by readily determinable market prices as of each balance sheet date. These investments are classified as other assets on the balance sheet. Gains and losses other than permanent losses are classified as components of comprehensive income, while permanent losses are classified as components of net income.

Revenue Recognition

Revenue is recognized from sales to all customers, including distributors, when a product is shipped. Sales to distributors are made under agreements, which provide the distributors price protection on and rights to periodically exchange a percentage of unsold inventory they hold. Accordingly, sales are reduced for estimated returns from distributors and estimated future price reductions of unsold inventory held by distributors. Product sales to two distributors for the fiscal year ended July 2, 1999, the six weeks ended August 13, 2000, the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000 and the 52 weeks ended December 28, 2001 amounted to 16.6%, 29.3%, 15.7%, 33.9% and 12.2%, respectively, of total product sales.

Research and Development

Research and development costs, consisting of the cost of designing, developing and testing new or significantly enhanced products are expensed as incurred.

Retirement Benefits

Intersil provides retirement benefits to substantially all employees primarily through a retirement plan having profit sharing and savings elements. Contributions by Intersil to the retirement plan are based on profits and employees' savings with no other funding requirements. Intersil may make additional contributions to the fund at its discretion.

The savings element of the retirement plan is a defined contribution plan, which is qualified under Internal Revenue Service Code Section 401(k). All employees of the Company may elect to participate in the 401(k) retirement plan (the "401(k) plan"). Under the 401(k) plan, participating employees may defer a portion of their pre-tax earnings up to certain limits prescribed by the Internal Revenue Service. The Company provides matching contributions under the provisions of the plan. Employees fully vest in the Company's matching contributions upon the completion of five years of service.

Retirement benefits also include an unfunded limited healthcare plan for U.S.-based retirees and employees on long-term disability. Intersil accrues the estimated cost of these medical benefits, which are not material, during an employee's active service life.

Retirement plans expense was $14.8 million in 1999, $1.4 million for the six weeks ended August 13, 1999, $10.4 million for the 46 weeks ended June 30, 2000, $9.6 million for the 26 weeks ended December 29, 2000 and $7.9 million for the 52 weeks ended December 28, 2001.

Income Taxes

For the Predecessor's financial statements, the semiconductor business was included with its parent, Harris, in a consolidated federal income tax return. Harris required each of its businesses to provide for taxes on financial statement pre-tax income or loss at applicable statutory tax rates. United States local amounts receivable or payable for current and prior years' income taxes were treated as intercompany transactions and were recorded in the semiconductor business equity. Intersil follows the liability method of accounting for income taxes. Current income taxes payable and deferred income taxes resulting from temporary differences between the financial statements and the tax basis of assets and liabilities are separately classified on the balance sheets.

Asset Impairment

Intersil accounts for long-lived asset impairment under Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company recognizes impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. Fair value is estimated based on discounted future cash flows. Long-lived assets to be disposed of are recorded at the lower of their carrying amount or estimated fair value less cost to sell.

Intangibles

Intangibles resulting from acquisitions are being amortized by the straight-line method over 5 to 11 years. Recoverability of intangibles is assessed using estimated undiscounted cash flows of related operations. Intangibles that are not expected to be recovered through future undiscounted cash flows are charged to expense when identified. Amounts in excess of the fair value of the intangible asset are charged to expense. Fair value is determined by calculating the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved.

Forward Contracts

When Intersil sells products outside the United States or enters into purchase commitments; the transactions are frequently denominated in currencies other than U.S. dollars. It is Intersil's policy not to speculate in foreign currencies. Intersil uses foreign exchange contracts to hedge forecasted foreign cash flow commitments up to six months. Hedges on forecasted foreign cash flow commitments do not qualify for deferral and therefore, gains and losses on changes in fair market value of the foreign exchange contracts are recognized in income.

Foreign Currency Translation

The functional currency for Intersil's international subsidiaries is predominately the local currency. Assets and liabilities are translated at current rates of exchange, and income and expense items are translated at the weighted average exchange rate for the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity. Cumulative translation gains (losses) were $1.6 million and $(1.7) million and $(2.0) million at June 30, 2000, December 29, 2000 and December 28, 2001, respectively.

Income (Loss) Per Share

Income (loss) per share is computed and presented in accordance with FAS 128, "Earnings per Share" and the Securities and Exchange Commission Staff Accounting Bulletin No. 98. Income (loss) per common share is presented for the periods subsequent to August 13, 1999 only because it is not meaningful for earlier periods since the Company did not have common stock outstanding for any of the earlier periods.

Use of Estimates

These statements have been prepared in conformity with accounting principles generally accepted in the United States and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year classifications.

NOTE C — INVENTORIES

Inventories are summarized below (in thousands):

	June 30, 2000	December 29, 2000	December 28, 2001
Finished products	$ 45,064	$ 51,583	$ 24,666
Work in process	96,278	94,477	69,758
Raw materials and supplies	7,072	9,002	3,090
	148,414	155,062	97,514
Less inventory reserves	21,933	28,864	29,626
	$ 126,481	**$ 126,198**	**$ 67,888**

At June 30, 2000, December 29, 2000 and December 28, 2001 Intersil was committed to purchase $24.9 million, $24.4 million, and $8.4 million, respectively, of inventory from suppliers.

NOTE D — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized below (in thousands):

	June 30, 2000	December 29, 2000	December 28, 2001
Land	$ 3,860	$ 3,860	$ 2,584
Buildings	78,940	78,693	51,585
Machinery and equipment	179,383	208,679	148,950
	262,183	291,232	203,119
Less allowances for depreciation	36,699	55,673	63,051
	$ 225,484	**$ 235,559**	**$ 140,068**

NOTE E — INTANGIBLES

Intangibles are summarized below (in thousands):

	Period of Amortization	June 30, 2000	December 29, 2000	December 28, 2001
Developed technology	11 years	$ 56,925	$ 75,775	$ 66,118
Customer base	7 years	23,482	23,482	15,314
Assembled workforce	5 years	9,606	11,906	8,593
Goodwill	5-7 years	110,823	223,077	216,873
		200,836	334,240	306,898
Less accumulated amortization		10,686	27,057	65,820
		$ 190,150	**$ 307,183**	**$ 241,078**

NOTE F — INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted income (loss) per share (in thousands, except per share amounts):

	June 30, 2000	December 29, 2000	December 28, 2001
Numerator:			
Net income (loss) to common shareholders	$ (48,099)	$ 7,009	$ 39,889
Denominator:			
Denominator for basic earnings per share — weighted average common shares	76,745	101,014	105,740
Effect of dilutive securities			
Stock options	—	1,000	1,348
Warrants	—	3,153	1,856
DENOMINATOR FOR DILUTED EARNINGS PER SHARE — ADJUSTED WEIGHTED AVERAGE SHARES	**76,745**	**105,167**	**108,944**
BASIC INCOME (LOSS) PER SHARE	**$ (0.63)**	**$ 0.07**	**$ 0.38**
DILUTED INCOME (LOSS) PER SHARE	**$ (0.63)**	**$ 0.07**	**$ 0.37**

The effect of dilutive securities is not included in the computation for the 46 weeks ended June 30, 2000 because to do so would be antidilutive.

NOTE G — SALE OF CERTAIN OPERATIONS

On March 16, 2001, the Company sold the assets of its Discrete Power products group to Fairchild for $338.0 million in cash and the assumption by Fairchild of certain liabilities of the product group. As a result of the sale, the Company recognized a gain of $168.4 million ($81.8 million after tax), which was net of the assets purchased and liabilities assumed by Fairchild, transaction fees and other exit costs associated with the sale. The exit costs include employee termination benefits that will be incurred within one year from the sale date.

At the date of the sale, Fairchild made offers of employment to a portion of the Intersil employees who supported the Discrete Power products group. Approximately 207 employees who were not offered jobs with Fairchild or who did not accept an employment offer were notified that their employment would be terminated and of the specifics of their severance benefits. Those positions included manufacturing, selling and general and administrative employees with 165 of the employees being located in the United States, 37 in Europe and 5 in Asia. As of December 28, 2001, approximately 86% of the affected employees had been terminated with the balance to be terminated before March 31, 2002.

Other exit costs included information technology costs required to cover transferred software license fees and system modifications necessary to support the business transition activity. A transition services agreement provided that Intersil provide systems support to Fairchild for up to 12 months from the date of sale. Intersil wrote off $14.8 million of intangible assets as well as other miscellaneous assets attributable to the Discrete Power products group. Intersil also identified approximately five foreign sales offices that it would close as a result of the sale. These offices will be closed prior to March 31, 2002.

Sterling Holding Company, LLC, our principal shareholder, is also a shareholder of Fairchild. The terms of the sale of the Discrete Power products group to Fairchild were the result of arms-length negotiations and are not less favorable than those that could be obtained from non-affiliated parties.

NOTE H — RESTRUCTURING AND OTHER NON-RECURRING CHARGES

In March 2001, the Board of Directors approved and the Company announced several major restructuring activities to improve on-going operations and product gross margins. The restructuring plans included the phased closure of the Company's Findlay, Ohio manufacturing operation, the exit of the modem board assembly manufacturing process in Scottsdale, Arizona and the exit of the value-added-reseller's channel in Europe for wireless access end products. As a result of the restructuring, the Company recorded expenses of approximately $32.4 million ($15.7 million after tax). The plans include certain exit costs and employee termination benefits. Benefits from these restructurings will be realized as each of the specific actions are completed in the form of reduced employee expenses, lower depreciation expense and lower operating costs. A summary of the restructuring charges and the remaining accrual follows:

(In millions)	Additions	Utilization	Balance December 28, 2001
Restructuring costs			
Employee termination costs			
Findlay plant closure	$ 16.4	$ (2.8)	$ 13.6
SiCOM board business exit	0.3	(0.3)	—
NWN VAR business exit	0.2	(0.2)	—
	16.9	(3.3)	13.6
Other exit costs			
Findlay facility decommission costs	4.5	(0.4)	4.1
SiCOM asset removal and related costs	10.0	(10.0)	—
SiCOM contract cancellation costs	1.0	(0.8)	0.2
	15.5	(11.2)	4.3
TOTAL RESTRUCTURING COSTS	**$ 32.4**	**$ (14.5)**	**$ 17.9**

In connection with the announced restructurings, approximately 534 employees were notified that their employment would be terminated and of the specifics of their severance benefits. Those positions included manufacturing, selling and general administrative employees with 521 of the employees being located in the United States and 13 in Europe. As of December 28, 2001, approximately 22% of the affected employees had been terminated; due to the timing of the phased closure of the Findlay, Ohio manufacturing operation, the remaining employees will be terminated over the next 12 months.

Other exit costs include costs to decommission (removal of semiconductor specific equipment and leasehold improvements) the Findlay site to a marketable condition. Intersil wrote off $9.5 million of intangible assets as well as other miscellaneous assets attributable to the exit of the modem board assembly manufacturing process. The Company plans to terminate some existing contracts in connection with the planned exit of the modem board assembly manufacturing process and has recognized the associated termination costs as part of this restructuring. These contracts were terminated prior to the end of the calendar year.

In connection with the phased closure of the Findlay, Ohio manufacturing operation, the Company recorded an impairment of $7.6 million ($3.7 million after tax) on the property, plant and equipment. The impairment was determined by comparing the carrying value of the assets to an appraised value on the land, equipment and buildings and the expected future undiscounted net cash flows from the equipment to be disposed. The carrying value of the property, plant and equipment to be disposed of as of December 28, 2001 was approximately $4.7 million.

NOTE I — LONG-TERM DEBT

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

	June 30, 2000	December 29, 2000	December 28, 2001
13.25% Senior Subordinated Notes	$ 112,384	$ 61,369	$ —
Other	4,208	4,081	—
	116,592	65,450	—
Less current portion	404	484	—
	$ 116,188	**$ 64,966**	**$ —**

13.25% Senior Subordinated Notes and Warrants

On August 13, 1999, in connection with the acquisition of the semiconductor business, Intersil completed an offering of 200,000 units consisting of $200 million of its 13.25% Senior Subordinated Notes ("Sub Notes") due 2009 and warrants to purchase 3,703,707 shares of Class A Common Stock of Intersil Holding. Each unit consisted of $1,000 principal amount of Sub Notes of Intersil and one warrant to purchase 18.5185 shares of Class A Common Stock of Intersil Holding. The total gross proceeds from the sale of the Sub Notes were $194.0 million, net of $6.0 million of deferred financing fees. The $6.0 million deferred financing fees were treated as additional interest related to the Sub Notes and amortized over the life of the Sub Notes on an effective yield method.

The Sub Notes required semi-annual interest payments beginning on February 15, 2000 through maturity on August 15, 2009. The Sub Notes were redeemable at the option of Intersil after August 15, 2004 upon the payment of certain redemption premiums, with up to 35% of the Sub Notes redeemable prior to August 15, 2002 with the proceeds of certain equity offerings and upon the payment of certain redemption premiums. The Sub Notes contained various restrictive covenants, including limitations on the incurrence of additional indebtedness, restrictions and limitations on payment of dividends, making investments, engaging in transactions with affiliates, consolidating, merging or transferring assets and restrictions and limitations on the sales of certain assets, among others. The Sub Notes also required the maintenance of certain ratios.

Each warrant entitles the holder to purchase 18.5185 shares of Intersil Class A Common Stock at a price of $.0015 per share. The warrants are exercisable beginning on the first anniversary of their issue date (August 13, 1999) and expire on August 15, 2009. Warrant holders have no voting rights. The warrants were preliminarily valued at $0.3 million and were treated as additional interest related to the Sub Notes and amortized over the life of the Sub Notes on an effective yield method. At December 28, 2001, 9,275 shares of Intersil Class A Common Stock remained to be exercised pursuant to these warrants.

On August 13, 1999, in connection with the acquisition of the semiconductor business, Intersil entered into senior credit facilities with a syndicate of financial institutions. The senior credit facilities included a $205.0 million funded term loan facility (the "Tranche B Senior Term Facility") and a revolving line of credit (the "Revolving Credit Facility"). The Revolving Credit Facility provides for up to $25.0 million of available funding capacity.

The Revolving Credit Facility bears interest ranging from LIBOR + 2.00% to LIBOR + 3.25%, depending on the results of applicable ratios. The Revolving Credit Facility matures in 2004.

The senior credit facilities contained various restrictive covenants, including, incurrence of indebtedness, payment of dividends, making certain investments and acquisitions, disposing of assets, among others. The senior credit facilities also required the maintenance of certain ratios.

On February 25, 2000, the Company issued 22,000,000 shares of its Class A Common Stock at a price of $25.00 per share. From the proceeds of the initial public offering, the Company paid off approximately $419.0 million of debt incurred through the acquisition of the semiconductor business. In connection with the early extinguishment of debt, the Company recorded extraordinary charges (net of tax) of $25.5 million.

During the 26 weeks ended December 29, 2000, the Company paid off approximately $51.0 million of the outstanding 13.25% Senior Subordinated Notes. In connection with the early extinguishment of debt, the Company recorded extraordinary charges (net of tax) of $5.9 million. In March 2001, the Company tendered all of the $61.4 million in outstanding 13.25% Senior Subordinated Notes. The Company recorded an extraordinary charge of $12.2 million (net of tax) related to premiums paid on repurchase and the write-off of deferred financing fees.

The other debt consists of five loans made by agencies of the Commonwealth of Pennsylvania with maturity dates ranging from 2003 to 2017 and are secured by Intersil's manufacturing facility in Mountaintop, Pennsylvania, which had a net carrying value of $4.6 million at July 2, 1999, $4.2 million at June 30, 2000 and $4.1 million at December 29, 2000. The weighted average interest rate for this debt was 3% at July 2, 1999, June 30, 2000 and December 29, 2000. These notes were assumed by Fairchild.

No interest was paid in fiscal year 1999 or in the six weeks ended August 13, 1999. Interest paid in the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000 and the 52 weeks ended December 28, 2001 was $0.1 million, $1.4 million and $4.4 million, respectively.

NOTE J — PREFERRED STOCK

Intersil has 100,000 shares of preferred stock authorized, stated value of $0.01 per share. The rights of holders of preferred stock will be stipulated at the time of issuance as determined by the board of directors pursuant to the adoption of a shareholder rights plan. On August 13, 1999, Intersil sold 83,434 shares of its 12% Series A Cumulative Compounding Preferred Stock to certain buyers, including Sterling Holding Company, LLC, Harris and certain members of management. The $83.4 million received from the sale was used as a cash equity contribution from Intersil to Intersil Communications, Inc. for the acquisition of the semiconductor business. No preferred stock was outstanding at June 30, 2000, December 29, 2000 or December 28, 2001.

On August 13, 1999, Intersil granted to certain members of management options to purchase 766.67 shares of Series A Preferred Stock at an option price of $250 per share, and a sign-on bonus in the aggregate amount of $575,025, representing the difference between the stated par value and the option price. The preferred stock options vested immediately. Intersil recorded compensation expense for the $575,025 as of the grant date.

Concurrent with the initial public offering, Intersil exchanged all outstanding shares of its 12% Series A Cumulative Compounding Preferred Stock plus accrued and unpaid dividends for approximately 2.6 million shares of its Class A Common Stock. Also, the outstanding options to purchase 766.67 shares of Series A Preferred Stock were exchanged for options to purchase 40,881 shares of Class A Common Stock.

NOTE K — LEASE COMMITMENTS

Total rental expense amounted to $6.3 million in fiscal year 1999, $0.6 million for the six weeks ended August 13, 1999, $5.0 million for the 46 weeks ended June 30, 2000, $3.7 million for the 26 weeks ended December 29, 2000 and $9.9 million for the 52 weeks ended December 28, 2001. Future minimum rental commitments under non-cancelable operating leases primarily used for land and office buildings amounted to approximately $16.9 million at December 29, 2001. These commitments for the years following 2001 (which exclude the estimated rental expense for annually renewable contracts) are: 2002 — $3.8 million, 2003 — $2.4 million, 2004 — $1.3 million, 2005 — $0.8 million, 2006 — $0.3 million and $2.9 million thereafter.

NOTE L — COMMON STOCK

Intersil is authorized to issue 600.0 million shares of Intersil common stock, par value $0.01 per share, divided into two classes consisting of 300.0 million shares of Intersil Class A Common Stock and 300.0 million shares of Intersil Class B Common Stock. Holders of Class A Common Stock are entitled to one vote for each share held and holders of Class B Common Stock have no voting rights. A holder of either class of Intersil common stock may convert any or all shares into an equal number of shares of the other class of Intersil common stock.

On August 13, 1999, Intersil sold 15.76 million shares of Class A Common Stock and 50.91 million shares of Class B Common Stock for approximately $5.0 million. The $5.0 million proceeds, along with the $83.4 million proceeds from the sale of Series A Preferred Stock were used as a cash equity contribution from Intersil to Intersil Communications for the acquisition of the semiconductor business.

On August 13, 1999, in connection with the issuance of the 13.5% Subordinated Holding PIK Note, Intersil issued to Citicorp Mezzanine Partners, L.P. warrants to purchase 3,703,707 shares of its Class A Common Stock at an exercise price of $.0015 per share, subject to certain anti-dilution adjustments. These warrants became exercisable after August 13, 2000 and expire on August 15, 2009. As Intersil prepaid in full the 13.5% Subordinated Holding PIK Note within 24 months after issuance, the number of shares subject to such warrants were reduced to 2,222,224 shares. The warrants were valued at $0.3 million and were treated as additional interest related to the 13.5% Subordinated Holding PIK Note. At December 28, 2001, 1,050,164 shares of Intersil Class A Common Stock remained to be exercised pursuant to these warrants.

Intersil had an option to purchase 1,161,905 shares (warehouse shares) from a majority shareholder at $0.075 per share pursuant to an agreement executed at the initial capitalization. Intersil repurchased the 1,161,905 shares in January 2000.

On February 25, 2000, Intersil completed the filing of a registration statement with the Securities and Exchange Commission (SEC) for a public offering of shares of its Class A Common Stock. Intersil issued 22,000,000 shares of it Class A Common Stock at a price of $25.00 per share. The net proceeds of this offering, after deducting underwriting discounts and commissions, were approximately $513.1 million.

In connection with the Company's initial public offering on February 25, 2000, Intersil effected a 1-for-1.5 reverse stock split of its Class A and Class B common shares as of February 23, 2000. All references to common shares in the accompanying consolidated financial statements reflect Intersil's reverse stock split.

On May 29, 2000, Intersil acquired 100% of the outstanding capital stock of Bilthoven, The Netherlands-based No Wires Needed B.V. ("NWN"). Consideration for the acquisition of NWN was 3.35 million shares of Intersil Class A Common Stock valued at $111.3 million at the date of closing.

At June 30, 2000, Intersil had 200,000 outstanding warrants (issued with the 13.25% Senior Subordinated Notes) to purchase 3,703,707 shares of Class A Common Stock of Intersil. Each warrant entitles the holder to purchase 18.5185 shares at a price of $.0015 per share. The warrants became exercisable on August 13, 2000 and expire on August 15, 2009. As of December 28, 2001, 189,050 warrants had been exercised for 3,500,918 shares of Intersil Class A Common Stock and 10,950 warrants to purchase 202,789 shares of Class A Common Stock remained outstanding.

During the 46 weeks ended June 30, 2000, Intersil recorded $0.9 million of unearned compensation for the excess of the fair value of the Class A Common Stock over the grant price for stock sold to certain executives by the majority shareholder of Intersil. Upon the Company's initial public offering, the stock sold became fully vested and the unearned compensation was written off.

On September 18, 2000, Manatee Investment Corporation, a wholly owned subsidiary of Harris Corporation, converted all 4,531,584 shares of its Intersil Class B Common Stock into an equivalent number of shares of Intersil Class A Common Stock.

On September 20, 2000, the Company issued 3,000,000 shares of its Class A Common Stock at a price of $48.00 per share pursuant to a public offering registered with the SEC. Net proceeds received from this offering, after deducting the underwriting discount and offering expenses of $7.8 million, were approximately $136.2 million. In connection with this public offering, the Company issued an additional 500,000 shares of its Class A Common Stock at a price of $48.00 per share upon the exercise of the over-allotment option by the underwriters on September 26, 2000. Net proceeds received from the exercise of the over-allotment option, after deducting the underwriting discount and offering expenses of $1.2 million, were approximately $22.8 million.

Sterling Holding Company, LLC (''Sterling''), in connection with the Company's public offering in September 2000, converted 8,007,902 shares of its Intersil Class B Common Stock into an equivalent number of shares of Intersil Class A Common Stock. In May 2001, Sterling converted 5,635,948 shares of its Intersil Class B Common Stock into an equivalent number of shares of Intersil Class A Common Stock. In November 2001, Sterling converted 15,288,573 shares of its Intersil Class B Common Stock into an equivalent number of shares of Intersil Class A Common Stock. At December 28, 2001, Sterling still held 16,282,475 shares, or 100%, of the outstanding Intersil Class B Common Stock.

On October 27, 2000, Intersil acquired 100% of the outstanding stock of Scottsdale, Arizona based SiCOM, Inc. (''SiCOM''). Consideration for the acquisition of SiCOM was 3.6 million shares (which includes 0.4 million shares issuable upon exercise of options) of Intersil Class A Common Stock valued at $162.6 million. The Company recognized $4.3 million in unearned compensation relative to the unvested portion of the options granted in connection with the acquisition. The unearned compensation is being amortized over the remaining vesting period of those options.

In March 2001, the Board of Directors authorized a stock repurchase program under which the Company may repurchase up to $50 million of its outstanding common stock. The number of shares to be repurchased and timing of purchases will be based on a variety of factors, including general market conditions, and the market price and trading volume of its shares. As of December 28, 2001, 498,000 shares at an approximate cost of $11.9 million had been repurchased and are held as treasury stock.

NOTE M — INCOME TAXES

The provision (benefit) for income taxes is summarized below (pro forma for predecessor financial statements) (in thousands):

	46 Weeks Ended June 30, 2000	26 Wks Ended December 29, 2000	52 Wks Ended December 28, 2001
Current taxes:			
Federal	$ —	$ 4,484	$ 81,672
State	—	166	6,465
Foreign	4,391	4,155	1,909
	4,391	8,805	90,046
Deferred taxes:			
Federal	(4,198)	16,565	(32,199)
State	(482)	1,613	(2,990)
	(4,680)	18,178	(35,189)
INCOME TAX EXPENSE (BENEFIT)	**$ (289)**	**$ 26,983**	**$ 54,857**

	Predecessor	
	Fiscal Year Ended July 2,1999	6 Wks Ended August 13,1999
United States (benefit)	$ (6,626)	$ (399)
International	1,605	352
State and local (benefit)	(1,006)	(55)
	$ (6,027)	**$ (102)**

The benefit related to tax deductions for the Company's stock option plans is recorded as an increase to additional paid-in capital when realized. The Company realized tax benefits of approximately $2.1 million, $1.7 million and $4.3 million for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000 and the 52 weeks ended December 28, 2001, respectively.

Current and deferred income tax expense for the 52 weeks ended December 28, 2001 includes a reclassification between current and deferred income tax expense of approximately $21.1 million attributable to a true-up of current tax expense for previously filed tax returns.

The provision (benefit) for income taxes is included in the Company's Consolidated Statements of Operations as follows (in thousands):

	46 Weeks Ended June 30, 2000	26 Wks Ended December 29, 2000	52 Wks Ended December 28, 2001
Income tax expense (benefit) from operations	$ (289)	$ 30,759	$ 62,405
Income tax benefit from extraordinary item and change in accounting principle	—	(3,776)	(7,548)
TOTAL INCOME TAX EXPENSE (BENEFIT)	**$ (289)**	**$ 26,983**	**$ 54,857**

The income tax benefit from extraordinary items is attributable to the pay-off of approximately $51.0 million of the outstanding 13.25% Senior Subordinated Notes for the 26 weeks ended December 29, 2000 and approximately $61.4 million for the 52 weeks ended December 28, 2001 as discussed in Note I — Long-Term Debt and the adoption of FAS 133 as discussed in Note Q — Adoption of Financial Accounting Standard No.133.

In connection with the early extinguishment of debt, the Company recorded extraordinary charges (net of $3.7 million tax benefit) of $5.9 million for the 26 weeks ended December 29, 2000 and (net of $7.5 million tax benefit) $12.2 million for the 52 weeks ended December 28, 2001. The tax benefit attributable to the extraordinary item reduced the Company's current federal and state income tax expense by $3.4 million and $0.3 million, respectively, for the 26 weeks ended December 29, 2000 and $6.9 million and $0.6 million, respectively, for the 52 weeks ended December 28, 2001. In connection with the adoption of FAS 133, the Company recorded a cumulative-effect-type adjustment (net of $0.1 million tax benefit) of $0.2 million for the 26 weeks ended December 29, 2000. The tax benefit attributable to the adoption of FAS 133 reduced the Company's current federal and state income tax expense by $0.1 million.

In the year 2000, the Malaysian taxing authority converted its income tax system to a self-assessment system. The new self-assessment system requires Malaysian corporate taxpayers to make estimated tax payments in year 2000 based on year 2000 estimated taxable income. Previously, Malaysian corporate taxpayers submitted tax payments following the year of assessment. In fiscal year 1999, the semiconductor business was not required to make tax payments on its fiscal year 1999 Malaysian taxable income, and therefore has not provided a tax provision for Malaysian taxes for fiscal year ended July 2, 1999, which would have amounted to approximately $15.1 million. The Malaysian tax holiday was effective for Intersil's fiscal year ended July 2, 1999 only, and does not impact any future periods.

The components of deferred income tax assets (liabilities) are as follows (in thousands):

	June 30, 2000		December 29, 2000		December 28, 2001	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
Receivables	$ 239	$ —	$ 246	$ —	$ 410	$ —
Inventory	8,664	—	9,689	—	7,111	—
Fixed assets	—	(21,590)	—	(23,592)	—	(6,285)
Intangibles	—	(14,363)	—	(13,014)	—	(3,639)
Accrued expenses	18,582	—	19,145	—	26,286	—
NOL carryforward	—	13,961	—	6,000	—	2,865
All other — net	(1,717)	—	(1,324)	(5,026)	—	565
	$ 25,768	**$ (21,992)**	**$ 27,756**	**$ (35,632)**	**$ 33,807**	**$ (6,494)**

A reconciliation of the statutory United States income tax rate to the Company's effective income tax rate follows:

	Predecessor		Successor		
	Fiscal Year Ended July 2, 1999	6 Weeks Ended August 13, 1999	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001
Statutory U.S. income tax rate	35.0%	35.0%	35.0%	35.0%	35.0%
State taxes	(3.1)	1.1	1.1	5.2	3.2
International income	(61.9)	(29.7)	—	3.3	2.8
Tax benefit related to export sales	—	—	—	(1.3)	(0.3)
Research credits	(2.7)	2.2	0.8	(4.4)	(2.2)
In-process research and development	—	—	(16.5)	26.2	—
Goodwill amortization	4.0	(4.9)	(1.2)	11.6	16.6
Effect of sales of Malaysian operations	—	—	(18.0)	—	—
Other items	0.5	(0.5)	(0.5)	3.8	2.8
EFFECTIVE INCOME TAX RATE	**(28.2)%**	**3.2%**	**0.7%**	**79.4%**	**57.9%**

United States income taxes have not been provided on undistributed earnings of international subsidiaries because of Intersil Corporation's intention to reinvest these earnings.

Pre-tax income (loss) of international subsidiaries was $41.9 million in fiscal year 1999, $(1.6) million for the six weeks ended August 13, 1999, $21.6 million for the 46 weeks ended June 30, 2000, $0.4 million for the 26 weeks ended December 29, 2000 and $4.4 million for the 52 weeks ended December 28, 2001.

Income taxes paid were $3.4 million in fiscal year 1999, $0.2 million for the six weeks ended August 13, 1999, $0.6 million for the 46 weeks ended June 30, 2000, $4.0 million for the 26 weeks ended December 29, 2000 and $61.7 million for the 52 weeks ended December 28, 2001.

For tax purposes, the Company had federal and state net operating loss carryforwards of approximately $7.2 million as of December 28, 2001. These net operating loss carryforwards begin to expire for federal and state purposes in 2019 and 2004, respectively. The Company has foreign net operating loss carryforwards of approximately $7.6 million as of December 28, 2001, resulting in a deferred tax asset of $2.8 million. The Company has recorded a valuation allowance of approximately $2.2 million related to certain foreign net operating loss carryforwards that may not be utilized.

The net change in total valuation allowance for the 52 weeks ended December 28, 2001 was $0.4 million and relates to the Company's expectations regarding utilization of the foreign net operating loss carryforwards.

The federal and state net operating loss carryforwards could be subject to limitation if, within any three year period prior to the expiration of the applicable carryforward period, there is a greater than 50% change in ownership of the Company.

NOTE N — GEOGRAPHIC INFORMATION

Intersil operates exclusively in the semiconductor industry. Substantially all revenues result from the sale of semiconductor products. All intercompany revenues and balances have been eliminated.

A summary of the operations by geographic area is summarized below (in thousands):

	Predecessor		Successor		
	Fiscal Year Ended July 2, 1999	6 Weeks Ended August 13, 1999	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001
United States operations					
Net sales	$ 357,878	$ 33,955	$ 389,741	$ 303,242	$ 161,122
Long-lived assets	371,448	366,386	333,668	485,357	343,559
International					
Net sales	13,163	2,672	21,982	27,653	319,944
Long-lived assets	121,330	118,277	112,487	103,312	89,226

Export sales included in U.S. operations were $166.4 million in fiscal year 1999, $16.6 million for the 6 weeks ended August 13, 1999, $227.5 million for the 46 weeks ended June 30, 2000, $163.9 million for the 26 weeks ended December 29, 2000 and $3.7 million for the 52 weeks ended December 28, 2001.

NOTE O — FINANCIAL INSTRUMENTS

At June 30, 2000, December 29, 2000 and December 28, 2001, the Company's financial instruments included cash and cash equivalents, investments, receivables, accounts payable, borrowings and forward foreign currency exchange contracts. The carrying values of cash and cash equivalents, receivables, accounts payable and short-term debt approximates fair value due to the short-term maturities of these assets and liabilities. Investments, included in other assets on the consolidated balance sheets, are comprised of less than 20% equity interests in companies. The investments are accounted for using the cost method and are classified as other assets, which approximates fair value, and were $28.8 million at June 30, 2000 and December 29, 2000 and $39.2 million at December 28, 2001. Included in these amounts is our investment in ChipPAC common stock, which is classified as available-for-sale and recorded at fair value as determined by quoted market prices. An unrealized holding gain in the amount of $4.0 million ($1.7 million after tax), has been charged to other comprehensive income (loss) for the year ended December 28, 2001. The carrying value of these securities was $15.8 million, $7.6 million and $9.2 million as of June 30, 2000, December 29, 2000 and December 28, 2001, respectively. The fair value of other financial instruments is based on quoted market prices or pricing models using prevailing financial market information at the date of measurement.

On August 8, 2000, ChipPAC completed its initial public offering and Intersil's investment in ChipPAC preferred stock was converted to an investment in ChipPAC common stock. During the year ended December 28, 2001, the Company recorded an impairment charge of $8.2 million ($4.0 million after tax) related to its investment in ChipPAC, Inc. common stock which reflected an other than temporary decline in value based on two consecutive quarters where the quoted market price was less than the carrying value.

The Company continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments, and does not anticipate nonperformance by the counterparties. The Company would not realize a material loss as of December 28, 2001 in the event of nonperformance by any one counterparty. The Company enters into transactions only with financial institution counterparties that have a long-term debt rating of no less than AA by Standard & Poor's or Aa by Moody's. For short-term debt (a maturity date less than 365 days), the issuer must have no less than an A1 Standard & Poor's and a P1 Moody's credit rating. In addition, the Company limits the amount of investment credit exposure with any one institution. At December 28, 2001, the Company did not require and was not required to collateralize any of its financial instrument obligations.

The Company's trade receivables and investments do not represent a significant concentration of credit risk at December 28, 2001, due to the wide variety of customers and markets into which the Company's products are sold, their dispersion across many geographic areas, and the diversification of the Company's portfolio among instruments and issuers. Credit limits, ongoing evaluation and trade receivable monitoring procedures are utilized to minimize the risk of credit loss. Expected losses are provided for currently and actual losses have been within management's expectations.

Intersil issues letters of credit during the ordinary course of business through major financial institutions as required by certain vendor contracts. Intersil had outstanding letters of credit totaling $2.7 million, $8.1 million and $3.4 million at June 30, 2000, December 29, 2000 and December 28, 2001, respectively. Intersil markets its products for sale to customers, including distributors, primarily in the United States, Asia/Pacific and Europe. Credit is extended based on an evaluation of the customer's financial condition and collateral is generally not required. Intersil maintains an allowance for losses based upon the expected collectibility of all accounts receivable.

Intersil uses foreign exchange contracts to hedge anticipated foreign cash flow commitments up to six months. Total net gains on foreign exchange contracts were $3.2 million, $1.9 million and $0.9 million for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000 and the 52 weeks ended December 28, 2001, respectively. Realized gains and losses from hedges are classified in the statement of operations consistent with the accounting treatment of the items being hedged. Open foreign exchange contracts were $30.9 million, $29.0 million and $9.6 million at June 30, 2000, December 29, 2000 and December 28, 2001, respectively, all of which were used to hedge anticipated foreign cash flow commitments. Intersil purchased and sold $87.4 million, $34.4 million and $25.8 million of foreign exchange forward contracts for the 46 weeks ended June 30, 2000, the 26 weeks December 29, 2000 and the 52 weeks ended December 28, 2001, respectively.

Total open foreign exchange contracts and options at June 30, 2000, December 29, 2000 and December 28, 2001 are described in the table below:

June 30, 2000

Options to sell foreign currencies

	Contract Amount		Maturities
Currency (In thousands)	Foreign Currency	U.S.	(In months)
Euro	3,000	$ 2,883	5 — 6

Commitments to sell foreign currencies

	Contract Amount		Maturities
Currency (In thousands)	Foreign Currency	U.S.	(In months)
Euro	16,500	$ 15,697	1 — 6
British Pound	2,300	3,572	1 — 6
Japanese Yen	1,190,000	11,655	1 — 7

December 29, 2000

Commitments to sell foreign currencies

Currency (In thousands)	Contract Amount Foreign Currency	U.S.	Maturities (In months)
Euro	21,250	$ 18,797	1 — 6
British Pound	350	532	1
Japanese Yen	1,020,000	9,655	1 — 6

December 28, 2001

Commitments to sell foreign currencies

Currency (In thousands)	Contract Amount Foreign Currency	U.S.	Maturities (In months)
Euro	6,500	$ 5,847	1 — 6
Japanese Yen	450,000	3,785	1 — 6

NOTE P — EMPLOYEE BENEFIT PLANS

Equity Compensation Plan

On November 5, 1999, Intersil adopted the 1999 Equity Compensation Plan (the "Plan"), which became effective on August 13, 1999 for salaried officers and key employees. The Plan authorized the grant of options for up to 7.5 million shares of Intersil Class A Common Stock (the number of shares authorized for the Plan was increased to 17.5 million shares, the increase was authorized by the shareholders at the Annual Meeting of Shareholders held May 15, 2001) and can include (i) options intended to constitute incentive stock options under the Internal Revenue Code, (ii) non-qualified stock options, (iii) restricted stock, (iv) stock appreciation rights, and (v) phantom share awards. The exercise price of each option granted under the Plan shall be determined by a committee of the Board of Directors (the "Board"). The maximum term of any option shall be 10 years from the date of grant for incentive stock options and 10 years and one day from the date of grant for non-qualified stock options. Options granted under the Plan are exercisable at the determination of the Board currently vesting ratably over approximately four to five years. Employees receiving options under the Plan may not receive in any one year period options to purchase more than 666,667 shares of common stock. The Company accounts for the Plan in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation expense is recorded on the date of the grant only if the current market price of the underlying stock exceeds the exercise price. No such compensation expense has been recorded to date. Had compensation cost for the Company's stock option plan been determined consistent with FAS 123, the Company would have reported a net loss of $43.7 million for the 46 weeks ended June 30, 2000, net income of $4.2 million for the 26 weeks ended December 29, 2000 and net income of $27.5 million for the 52 weeks ended December 28, 2001. The impact to basic and diluted income (loss) per share would have been (0.01), (0.03) and (0.11) for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000 and the 52 weeks ended December 28, 2001, respectively.

The Company estimates the fair value of each option as of the date of grant using the Black-Sholes pricing model with the following weighted average assumptions:

	June 30, 2000	December 29, 2000	December 28, 2001
Expected volatility	0.5	0.877	1.002
Dividend yield	—	—	—
Risk-free interest rate	6.25%	5.47%–6.20%	4.14%–5.40%
Expected life, in years	7	7	7

A summary of the status of the Company's stock option plan as of and changes during the 46 weeks ended June 30, 2000, 26 weeks ended December 29, 2000 and 52 weeks ended December 28, 2001 are presented in the tables below:

	June 30, 2000		December 29, 2000		December 28, 2001	
	Shares (In thousands)	Weighted Average Exercise Price	Shares (In thousands)	Weighted Average Exercise Price	Shares (In thousands)	Weighted Average Exercise Price
Outstanding at beginning of period	—	$ —	2,955	$ 15.76	4,136	$ 25.72
Granted	3,177	15.41	1,325	48.12	2,345	24.83
Exercised	(194)	10.21	(66)	2.25	(316)	10.52
Canceled	(28)	15.20	(78)	25.56	(542)	25.26
OUTSTANDING AT END OF PERIOD	**2,955**	**$ 15.76**	**4,136**	**$ 25.72**	**5,623**	**$ 26.50**
EXERCISABLE AT END OF PERIOD	**191**	**$ 2.89**	**162**	**$ 3.01**	**822**	**$ 28.29**
WEIGHTED AVERAGE FAIR VALUE OF OPTIONS GRANTED		**$ 5.07**		**$ 24.16**		**$ 24.15**

Information with respect to stock options outstanding and stock options exercisable at June 30, 2000, December 29, 2000 and December 28, 2001 is as follows:

	Number Outstanding (In thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable (In thousands)	Weighted Average Exercise Price
June 30, 2000					
$2.25	1,422	9.19	$ 2.25	155	$ 2.25
$6.93	36	9.19	$ 6.93	36	$ 6.93
$25.00	1,156	9.65	$ 25.00	—	—
$28.50–$42.13	208	9.89	$ 36.62	—	—
$42.94–$58.50	133	9.89	$ 47.40	—	—
December 29, 2000					
$2.25	1,392	8.70	$ 2.25	126	$ 2.25
$6.93	36	8.62	$ 6.93	36	$ 6.93
$25.00–$35.88	1,118	9.16	$ 25.11	—	—
$37.56–$55.13	1,552	9.68	$ 46.85	—	—
$57.31–$63.06	38	9.55	$ 58.33	—	—
December 28, 2001					
$2.25	1,013	7.70	$ 2.25	221	$ 2.25
$6.93	29	7.63	$ 6.93	29	$ 6.93
$15.00–$21.25	953	9.17	$ 17.33	—	—
$25.00–$35.88	2,149	8.97	$ 28.37	221	$ 27.40
$37.56–$55.13	1,460	8.70	$ 46.55	347	$ 46.87
$57.31–$63.06	19	8.51	$ 58.35	4	$ 58.35

Employee Stock Purchase Plan

In February 2000, Intersil adopted the Employee Stock Purchase Plan (the "ESPP") whereby eligible employees can purchase shares of Intersil's common stock. Intersil has reserved 1,333,334 shares of common stock for issuance under the ESPP. The ESPP permits employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's compensation, at a price not less than 85% of the market value of the stock on specified dates. In no event, may any participant purchase more than $25,000 worth of shares in any calendar year and an employee may purchase no more than 16,667 shares on any purchase date. Unless sooner terminated by the Board, the ESPP shall terminate upon the earliest of (1) February 28, 2010, (2) the date on which all shares available for issuance under the ESPP shall have been sold pursuant to purchase rights exercised under the ESPP, or (3) the date on which all purchase rights are exercised in connection with a Corporate Transaction (as defined in the ESPP). No shares had been issued as of June 30, 2000. As of December 29, 2000 and December 28, 2001, approximately 169,000 and 462,000 shares had been issued under the ESPP, respectively.

NOTE Q — ADOPTION OF FINANCIAL ACCOUNTING STANDARD NO. 133

Effective July 1, 2000, the Company adopted FAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires that all derivative instruments be reported on the consolidated balance sheets at fair value and establishes a criterion for designation and effectiveness of hedging relationships. In accordance with the transition provisions of FAS 133, the Company recorded a cumulative effect-type adjustment, net of tax, of $(0.2) million to recognize the fair value of the derivatives. The derivatives were also recognized on the consolidated balance sheet at their fair value of $(0.4) million on December 29, 2000.

NOTE R — RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued FAS 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company will apply the new accounting rules beginning December 29, 2001. Based on the value of the definite lived assets capitalized as of December 28, 2001, amortization expense is expected to decline by approximately $34.8 million ($20.4 million after tax, or $0.19 per diluted share) in 2002. Approximately $4.5 million of unamortized intangible assets attributable to assembled workforce will be reclassified to goodwill in 2002. The Company has completed the first of the required impairment tests of goodwill. This test indicated that there was no impairment of existing goodwill under the provisions of FAS 142.

NOTE S — ACQUISITIONS

On May 29, 2000, Intersil acquired 100% of the outstanding capital stock of NWN. Consideration for the acquisition of NWN was 3.35 million shares of Intersil Class A Common Stock valued at $111.3 million at the date of closing. The NWN acquisition has been accounted for by the purchase method of accounting and, accordingly, the results of operations of NWN have been included in the accompanying Consolidated Financial Statements since the acquisition date. The purchase price exceeded the fair value of the net tangible assets by approximately $109.0 million. NWN had completed all in-process research and development programs prior to its acquisition. Therefore, none of the purchase price in excess of the fair value of the net tangible assets was allocated to purchased in-process research and development. The purchase price in excess of fair value of net tangible assets was allocated to goodwill, which is being amortized on a straight-line basis over seven years.

The following unaudited pro forma consolidated results of operations are presented as if the NWN acquisition occurred on August 14, 1999 (in millions, except per share data):

	46 Wks Ended June 30, 2000
Product sales	$ 603.2
Net loss before extraordinary item	(31.7)
Net loss	(57.3)
Net loss to common shareholders	(62.7)
Net loss per basic and diluted share	(0.79)

The pro forma results of operations include adjustments to give affect to additional depreciation and amortization related to the increased value of acquired assets and identified intangibles. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition actually been made at the beginning of the period presented or the future results of the combined operations.

On October 27, 2000, Intersil acquired 100% of the outstanding stock of SiCOM. Consideration for the acquisition of SiCOM was 3.6 million shares (which includes 0.4 million shares issuable upon exercise of options) of Intersil Class A Common Stock valued at $162.6 million. The SiCOM acquisition has been accounted for by the purchase method of accounting and, accordingly, the results of operations of SiCOM have been included in the accompanying Consolidated Financial Statements since the acquisition date. The purchase price exceeded the fair market value of the net tangible assets acquired by $160.6 million. The appraisal of the acquired SiCOM business included $25.4 million of purchased in-process research and development, which was related to various products under development. The acquired technology had not yet reached technological feasibility and had no future alternative uses. Accordingly, it was written off at the time of acquisition. The remaining intangibles (developed technology, assembled workforce and goodwill) are being amortized over 5 to 11 years.

The following unaudited pro forma consolidated results of operations are presented as if the SiCOM acquisition occurred on August 14, 1999 and July 1, 2000, respectively (in millions, except per share data):

	46 Wks Ended June 30, 2000	26 Wks Ended December 29, 2000
Product sales	$ 601.7	$ 436.6
Net income (loss) before extraordinary item	(38.4)	3.9
Net loss	(63.9)	(2.2)
Net loss to common shareholders	(69.3)	(2.2)
Net loss per basic and diluted share	(0.87)	(0.02)

The pro forma results of operations include adjustments to give affect to additional depreciation and amortization related to the increased value of acquired assets and identified intangibles. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition actually been made at the beginning of the period presented or the future results of the combined operations.

NOTE T — SALE OF INTERSIL'S KUALA LUMPUR, MALAYSIA-BASED SEMICONDUCTOR ASSEMBLY AND TEST OPERATIONS

On June 30, 2000, Intersil completed the sale of its Kuala Lumpur, Malaysia-based semiconductor assembly and test operations to ChipPAC, which under a multi-year supply agreement, will supply integrated circuit assembly and test services to Intersil. Under the terms of the transaction, ChipPAC acquired all of Intersil's Kuala Lumpur assets, including a 524,000 square foot semiconductor assembly and test facility, wireless and analog/mixed signal capabilities and product distribution center, as well as the operation's management team and approximately 2,900 employees. As consideration for the sale, Intersil received approximately $52.5 million in cash and $15.8 million in ChipPAC preferred convertible stock. Intersil recognized a non-recurring charge of $24.8 million for the loss on sale in connection with the transaction.

NOTE U — TRANSITION PERIOD COMPARATIVE DATA

The following table presents certain financial information for the 26-week periods ended December 31,1999 and December 29, 2000 (in thousands, except per share amounts):

	26 Wks Ended December 31, 1999 (unaudited)	26 Wks Ended December 29, 2000
Net sales	$ 292.1	$ 435.5
Gross margin	109.9	205.8
Income (loss) before income taxes, extraordinary item and cumulative effect of a change in accounting principle	(23.6)	43.9
Income taxes	1.3	30.8
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	(24.9)	13.1
Extraordinary item — loss on extinguishment of debt, net of tax effect	—	(5.9)
Income (loss) before cumulative effect of a change in accounting principle	(24.9)	7.2
Cumulative effect of adoption of SFAS 133, net of tax effect	—	(0.2)
Net income (loss)	(24.9)	7.0
Preferred dividends	3.8	—
NET INCOME (LOSS) TO COMMON SHAREHOLDERS	**$ (28.7)**	**$ 7.0**
Basic and diluted income (loss) per share:		
Income (loss) per share before extraordinary item	$ (0.39)	$ 0.13
Extraordinary item	—	(0.06)
NET INCOME (LOSS)	**$ (0.39)**	**$ 0.07**
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**66,673**	**105,167**

NOTE V — QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of unaudited quarterly financial information for the periods indicated:

	Quarters Ended							
(In millions, except per share data)	March 31, 2000	June 30, 2000	Sept. 29, 2000	Dec. 29, 2000	March 30, 2001	June 29, 2001	Sept. 28, 2001	Dec. 28, 2001
Net sales	$ 117.7	$ 138.2	$ 166.2	$ 164.7	$ 127.8	$ 118.3	$ 113.4	$ 121.6
Gross margin	50.3	62.4	84.1	85.5	42.2	59.5	57.6	63.2
Income (loss) before extraordinary item[a]	2.8	1.8	19.4	(6.5)	50.6	1.2	(3.3)	3.5
Extraordinary item[b]	(25.5)	—	(0.3)	(5.6)	(12.2)	—	—	—
NET INCOME (LOSS)	**$ (22.7)**	**$ 1.8**	**$ 19.1**	**$ (12.1)**	**$ 38.4**	**$ 1.2**	**$ (3.3)**	**$ 3.5**
Net income (loss) to common shareholders	$ (24.2)	$ 1.8	$ 19.1	$ (12.1)	$ 38.4	$ 1.2	$ (3.3)	$ 3.5
Per share (basic):								
Income (loss) before extraordinary item	$ 0.02	$ 0.02	$ 0.20	$ (0.06)	$ 0.48	$ 0.01	$ (0.03)	$ 0.03
Extraordinary item	(0.34)	—	—	(0.06)	(0.12)	—	—	—
NET INCOME (LOSS)	**$ (0.32)**	**$ 0.02**	**$ 0.20**	**$ (0.12)**	**$ 0.36**	**$ 0.01**	**$ (0.03)**	**$ 0.03**
Per share (diluted):								
Income (loss) before extraordinary item	$ 0.02	$ 0.02	$ 0.19	$ (0.06)	$ 0.46	$ 0.01	$ (0.03)	$ 0.03
Extraordinary item	(0.34)	—	—	(0.06)	(0.11)	—	—	—
NET INCOME (LOSS)	**$ (0.32)**	**$ 0.02**	**$ 0.19**	**$ (0.12)**	**$ 0.35**	**$ 0.01**	**$ (0.03)**	**$ 0.03**

[a] During the quarter ended December 29, 2000, the Company recorded a charge of $25.4 million for in-process research and development in connection with the acquisition of SiCOM, Inc. During the quarter ended March 30, 2001, the Company recorded a $168.4 million gain in relation to the sale of the Discrete Power products group. During the quarter ended March 30, 2001, the Company recorded charges of $32.4 million, $7.6 million, and $8.2 million in relation to its restructuring activities, the impairment of long-lived assets and the impairment of marketable securities, respectively.

[b] During the quarters ended March 31, 2000, September 29, 2000, December 29, 2000 and March 30, 2001, the Company recognized extraordinary losses (net of tax) of $25.5 million, $0.3 million, $5.6 million and $12.2 million, respectively, related to the early extinguishment of debt.

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS' REPORT

THE BOARD OF DIRECTORS

Intersil Corporation

We have audited the accompanying consolidated balance sheets of Intersil Corporation (Successor) as of December 28, 2001, December 29, 2000 and June 30, 2000 and the related statements of operations, comprehensive income, shareholders' equity and cash flows for the fiscal year ended December 28, 2001, the 26 weeks ended December 29, 2000 and the 46 weeks ended June 30, 2000. We have also audited the accompanying consolidated statements of operations, comprehensive income and cash flows of Harris Semiconductor Business (semiconductor business) (Predecessor), which was wholly owned by Harris Corporation, for the fiscal year ended July 2, 1999 and the six weeks ended August 13, 1999. Our audits also included the financial statement schedule listed at Item 14(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Predecessor consolidated financial statements were prepared on the basis of presentation as described in Note A. The results of operations are not necessarily indicative of the results of operations that would be recorded by the semiconductor business on a stand-alone basis.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intersil Corporation at December 28, 2001, December 29, 2000 and June 30, 2000 and the consolidated results of the operations and cash flows of the Successor and Predecessor companies for the fiscal year ended July 2, 1999, the six weeks, 46 weeks and 26 weeks ended August 13, 1999, June 30, 2000 and December 29, 2000, respectively, and the fiscal year ended December 28, 2001, on the basis described in Note A, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst + Young LLP

Jacksonville, Florida
January 22, 2002

COMPANY INFORMATION

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Stephen Moran, Esq.
Vice President, General Counsel and Secretary

David Zinsner
Corporate Controller & Treasurer

INVESTOR RELATIONS

Contact Intersil's Investor Relations department to ask any investment related questions or to receive additional copies of this report, our annual report on form 10-K or other financial information free of charge. Call us at 1-949-341-7000. In addition you can write to us at:

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Our transfer agent can assist you in affecting a change of address or replacing lost stock certificates as well as a variety of other services:

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