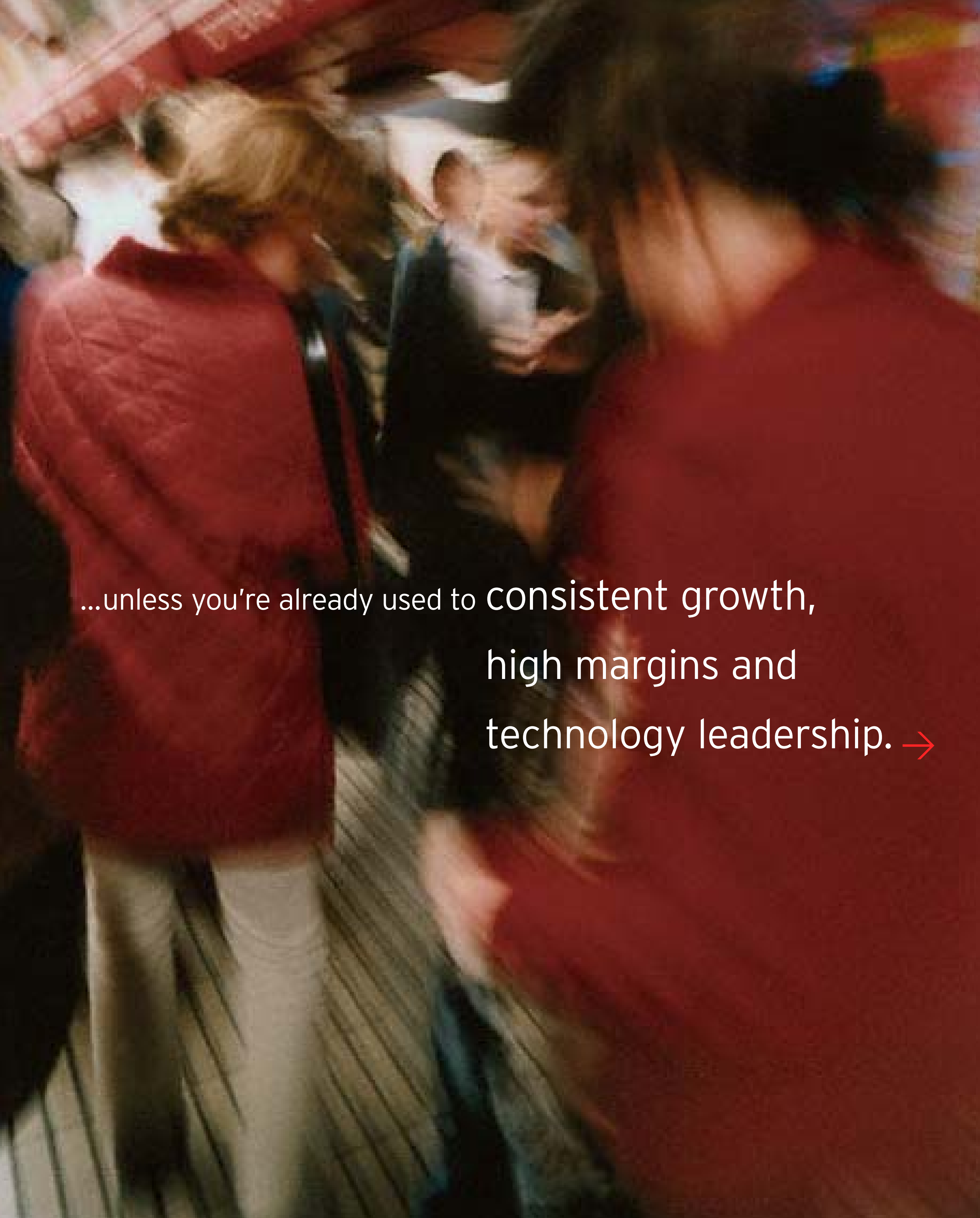
Intersil Corporation Annual Report 2002*

*Results not typical

Inside

A global technology leader, Intersil specializes in semiconductor solutions that enhance the computing experience and place people at the center of connectivity. Intersil's vision is to achieve consistent growth, high margins and technology leadership for its high performance analog and wireless networking solutions. This "best of both worlds" strategy generates strong cash flow for funding future growth and provides opportunity for growing shareholder value.

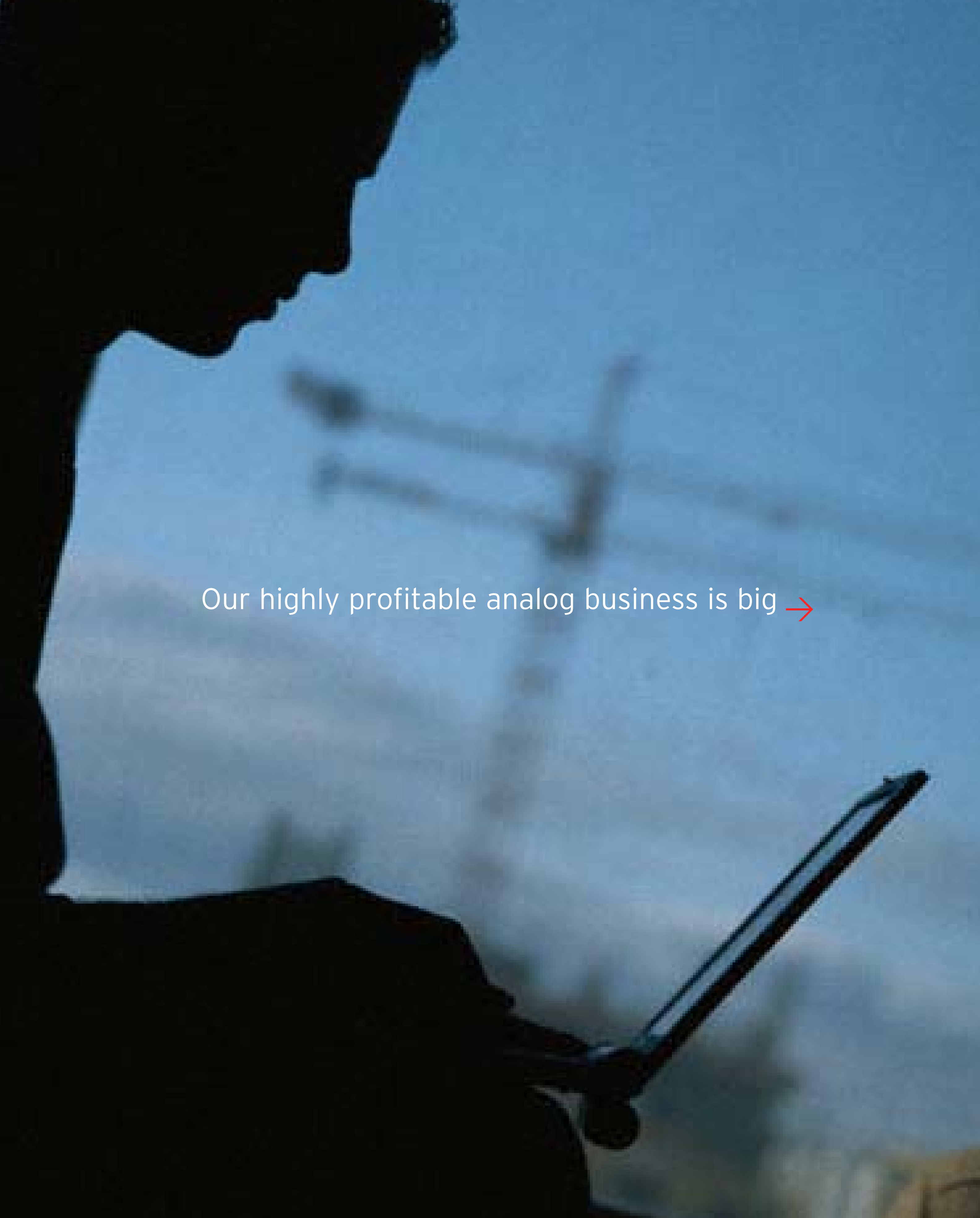


...unless you're already used to consistent growth, high margins and technology leadership. →

Analog at Intersil is anything but typical.

Analog technology transforms the real world of light, sound, temperature, speed and pressure into the ones and zeros of digital electronics. Analog integrated circuits provide the critical bridge between the on-off world of digital electronics and the real world by monitoring, regulating, amplifying or transforming the signals that accurately represent these physical properties. And as digital electronics content continues to increase — in PCs, video and communications equipment and battery-powered portables — so too must the analog content that defines the user experience.

High performance analog integrated circuits are defined by their high speed, high precision, low distortion and power efficiency. Intersil is one of the few companies that offers the engineering and design resources and applications knowledge needed to develop high performance analog products. The company's specialization and focus on very select segments within high performance analog — power management, optical storage, and flat panel display markets — further differentiates Intersil from its semiconductor competitors, leading to results that are anything but typical.



Our highly profitable analog business is big →

and getting bigger.*

Intersil's highly profitable analog business closed 2002 with nearly $470 million in revenues, and is well positioned for future growth. In fact, Intersil holds the number one market position in three of the highest growth markets in the industry: Power Management, Optical Storage and Flat Panel Displays.

The company uses its analog expertise to power over half of the world's desktop PCs, enable high-speed recording onto DVDs, and deliver vivid images to flat panel monitors and LCD TVs.

With nearly 50 years of analog electronics experience, a portfolio of more than 1,300 patents and a global team dedicated to bringing its high performance analog technology to new and emerging applications, Intersil is uniquely positioned to be a leader in these profitable and growing markets.

We are leading in three of the highest growth markets. →

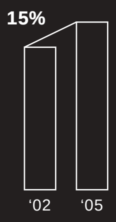
* [POWER MANAGEMENT
OPTICAL STORAGE
FLAT PANEL DISPLAYS]

The world's leading power management supplier

TECHNOLOGY THAT GIVES
PEOPLE THE POWER TO DO MORE.

POWER MANAGEMENT MARKET CAGR
Compound Annual Growth Rate

(WSTS, November 2002)



*Over 50% of today's desktop PCs use Intersil's Power Management solutions.

Intersil's power management technology goes further, lasts longer.

Intersil developed the first cost-effective multiphase power solution for high-speed micro-processors, and today powers half of the world's desktop PCs. It is also a leading provider of hot swap ICs for file servers and redundant array of independent disks (RAIDs) that allow repair and maintenance without interruption to system power, enabling 24x7 reliability. This expertise and market leadership enabled Intersil to grow its Power Management revenue by 22% in 2002.

Intersil continues to expand its leadership in Power Management by applying the same analog skills that made it number one in desktop PCs and servers to notebook PCs, double data rate (DDR) memory, graphics cards and battery-powered portables.

Intersil delivers the power to today's microprocessors, extends battery life in portables and is developing a new digital power management solution for tomorrow's multi-Gigahertz processors.

Intersil's high performance analog expertise also brings power to broadband communications with new products for wireless LANs, DSL and cable modems, satellite set-top boxes, and data switches and routers.

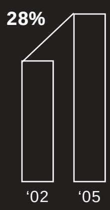
When systems designers need power efficiency, extended battery life and quick time to market, they turn to the leader in power management—Intersil.

Intersil's newest edition

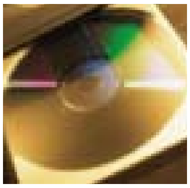
ELANTEC® ANALOG INTEGRATED CIRCUITS TARGET TODAY'S FASTEST GROWING MARKETS.

OPTICAL STORAGE MARKET CAGR
(Gartner, October 2002)

FLAT PANEL DISPLAY MARKET CAGR
(DisplaySearch, March 2002)



* Technology leader with first to market Laser Diode Drivers (LDD) for both DVD Recordables and next generation Blue Laser.


A strong growth engine for Intersil.

With the successful acquisition of Elantec Semiconductor, Inc. this year, Intersil added complementary strength to its high performance analog offering. Already a leader in power management and wireless networking, the addition of Elantec brought Intersil nearly 20 years of analog expertise and leadership in optical storage (CD and DVD recordable), flat panel display and digital subscriber line (DSL) markets.

Intersil's high performance analog technology has been designed into many of the world's CD and DVD burners that depend upon the company's Elantec laser driver chips. These integrated circuits help control the laser within a CD and DVD burner, telling it where and when to read, write and erase information on a disk. Continuous advances in Elantec laser driver technology have enabled manufacturers to increase read/write speeds within CD and DVD recordable systems, decreasing the amount of time required to record video, audio or other data onto a disk.

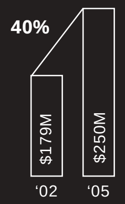
In flat panel displays and other video applications, Elantec's buffer and operational amplifiers offer the performance and efficiency required for processing and displaying vivid computer and video imagery. As a leader in this market, Intersil is well positioned to take advantage of a consumer shift to flat panel monitors and LCD TVs.

Intersil is also a leading supplier of line drivers for high-speed digital subscriber lines (DSL) in the Central Office with a portfolio of products tailored to meet the growing end-user demand for higher bit rates. Elantec DSL line drivers offer the low power consumption and small size requirements to meet the most challenging high-density line card designs.

Innovative standard analog solutions

INTERSIL HAS A 50-YEAR
TRACK RECORD OF LEADERSHIP
IN THE MARKET.

ANALOG SWITCHING MARKET GROWTH
(Selantek Report, July 2002)



*Ranked #2 in the world among analog switch and multiplexer suppliers by a July 2002 Selantek report.

Intersil is a pioneer in the field.

Intersil's high performance analog heritage can be traced back to one of the first analog semiconductor companies to develop standard analog and mixed-signal (analog + digital) integrated circuits.

The company's standard analog solutions are the building block products required for signal processing in today's communications, video and industrial applications.

Intersil's Standard Analog Solutions portfolio includes:

→ Analog switches and multiplexers
→ Interface circuits
→ Operational amplifiers
→ Data converters
→ Standard Military ICs (MIL/883)
→ Voice over Internet Protocol (VoIP) ICs

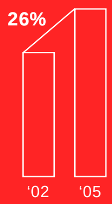
This broad portfolio of high margin products serves a variety of end markets, from communications and computing to industrial and military.

From PDAs to MRIs, Intersil's Standard Analog products offer the integration, performance and high reliability that customers demand.

Intersil is leading the wireless revolution

OUR PROPRIETARY WLAN
TECHNOLOGY IS #1 IN THE MARKET.

WIRELESS MARKET GROWTH CAGR
(Allied Business Intelligence, January 2003)



* Undisputed market leader with annual revenue growth of 76% in 2002.

Complementing Intersil's high performance analog offering is its portfolio of Wireless Networking solutions. Intersil became the world's market leader in wireless local area networking (WLAN) because it offers the most complete WLAN solution, including chip sets, software, firmware and radio reference designs that are used by the world's leading companies. That's one reason why Intersil has shipped more wireless networking chip sets than the rest of the industry combined, and why it's the leader in this high-growth market.

Intersil offers complete wireless local area networking solutions.

→ PRISM® 3: An IEEE 802.11b-based three-chip solution optimized for consumer applications. The innovative Direct Conversion (Zero-IF) architecture significantly reduces WLAN product cost and is ideally suited for portable and embedded applications.

→ PRISM GT™: A chip set that enables WLAN systems to attain data transmission speeds up to 54 megabits per second (Mbps), while remaining backward compatible to the existing installed base of over 40 million 802.11b systems worldwide. PRISM GT supports operation to both the IEEE 802.11b standard and IEEE 802.11g draft standards.

→ PRISM Duette™: A dual-band chip set capable of connecting to any wireless LAN infrastructure, whether 5 GHz (802.11a) or 2.4 GHz (802.11b and 802.11g). This universal client card solution is capable of transmitting high-speed video, voice and data at speeds up to 54 Mbps while remaining backward compatible to the existing installed base of over 40 million systems worldwide.

→ PRISM Indigo™: The complete wireless chip set solution for 54 Mbps 802.11a wireless networking. It provides the total package of reference design, software, firmware and hardware for the 5 GHz market where many users can access wireless data from short range.

Dear Intersil Shareholder

Richard M. Beyer
Intersil President and CEO

This was a year of growth and change for Intersil Corporation. During 2002, we expanded our leadership and technology competencies in high performance analog and wireless networking markets. The acquisition of Elantec in May added leadership in optical storage, flat panel display and digital subscriber line (DSL) markets to Intersil's leading positions in power management and wireless networking. As a separate product group, Elantec has already begun to contribute to Intersil's success.

We also exited the automotive business during the year in order to focus our analog design and manufacturing resources on higher growth opportunities. Intersil is now better positioned in several of the most attractive market segments within the entire electronics industry.

Results Not Typical

Focus on customers in these markets and our leading edge products allowed Intersil to outperform the overall industry again in 2002. Our revenue increased 23% during a year in which the semiconductor industry grew a modest 1.3%. Growth in sales was complemented by an increase in gross margins and operational improvements, allowing Intersil to improve cash flow throughout the year. Intersil exited 2002 debt-free and with more than $620 million in cash.

Intersil continues its move to the upper echelon of high performance analog companies. We've added applications expertise and introduced over 100 new products to our high performance analog portfolio. In power management, we increased our leading position in desktop PCs while introducing new Endura™ power management solutions for notebook PCs, double data rate (DDR) memory and graphics cards. We're also leading the move to the next generation of multi-Gigahertz microprocessors with one of the industry's first digital power management solutions.

New Market Opportunities

We're building on our leadership in optical storage (CD and DVD recordable) with new families of Elantec™ laser diode drivers that are pushing the speed and accuracy of CD-Read/Write and DVD recordable systems to new heights. Our technology leadership in optical storage positions us well for the future as DVD attach rates in notebook and desktop PCs continue to grow. Intersil is also benefiting from a consumer migration to flat panel monitors and LCD TVs that utilize our Elantec family of display buffers and high performance operational amplifiers.

Continuing Technology Leadership

Intersil's powerful high performance analog portfolio is complemented by our leadership position in wireless networking. Intersil has contributed significantly to the explosive demand for wireless connectivity as wireless local area networks (WLANs) continue to pop up in homes, businesses, airports and other public places. Intersil has shipped more WLAN chip sets than all other companies combined, and we're not sitting still.

We're adding to our WLAN technology and market leadership in 2003 with more highly integrated, higher speed and multi-mode wireless solutions. As the first company providing complete solutions for 802.11a, b, g and its multi-mode combinations, Intersil is well positioned as new WLAN markets and applications continue to emerge.

Our Model is Working

No other company offers the balance of high margin, proprietary high performance analog and high growth wireless networking. We believe that this balance combined with an ongoing commitment to superb products, satisfied customers and strong financial performance positions us well for continued success as the semiconductor industry recovers in 2003.

We thank our shareholders, customers, employees and partners for contributing to Intersil's accomplishments in 2002. I would also like to express my thanks to Greg Williams, Intersil's Executive Chairman, for his ongoing support and for charting a course for the company's success since its founding in 1999. I am tremendously excited about building on these achievements and continuing to increase value for our shareholders.

Sincerely,

Richard M. Beyer
Intersil President and CEO

2002 FINANCIAL STATEMENTS

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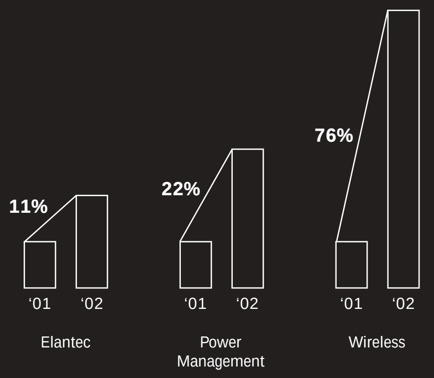
2002 Financial Highlights

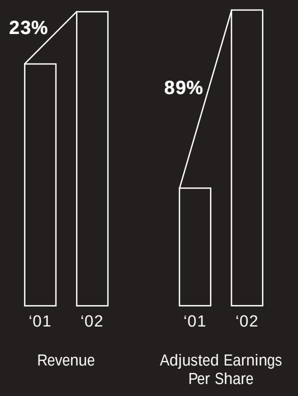
PRODUCT GROUP GROWTH



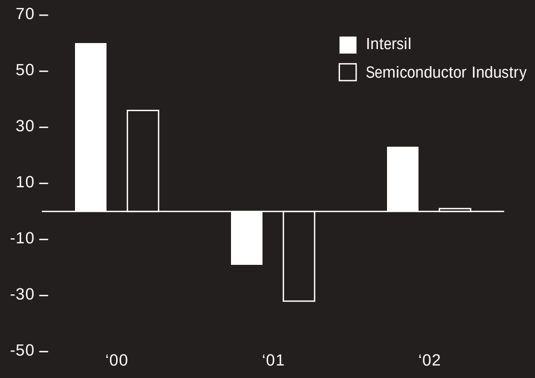
OPERATING IMPROVEMENTS

	2001	2002
Gross Margin	51%	53%
Research & Development	22%	20%
Selling, General & Administrative	19%	17%
Adjusted Operating Income — as a % of sales	9%	17%

PERFORMANCE IMPROVEMENT



INTERSIL REVENUE GROWTH VS. SEMICONDUCTOR INDUSTRY GROWTH
(% change)



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Intersil Corporation ("Intersil" or 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 high performance analog and wireless networking markets. We focus on four fast growing markets: power management, optical storage (CD and DVD recordable), flat panel displays and wireless networking. We bring added customer value by providing silicon, software and reference design solutions to new products that enhance the computing experience.

BASIS OF PRESENTATION

We were formed on August 13, 1999, through a series of transactions, in which we and our wholly owned subsidiary, Intersil Communications, Inc., or Intersil Communications, 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.

Pursuant to a Form 8-K filed on March 29, 2000, we elected to change our fiscal year end from the Friday closest to June 30 to the Friday closest to December 31. Our stub year 2000 began on July 1, 2000 and ended December 29, 2000.

On March 16, 2001, we sold the assets of our Discrete Power products group to Fairchild Semiconductor Corporation, or Fairchild for $338.0 million in cash and the assumption by Fairchild of certain liabilities of this product group. The consolidated balance sheet as of December 28, 2001 has been reduced by the assets purchased and liabilities assumed by Fairchild. Additionally, the operating results of our Discrete Power products group are shown under the caption "Operating results of certain operations disposed of during 2001" in the consolidated statements of operations.

On May 14, 2002, we consummated the merger with Elantec. The merger was accounted for using the purchase method of accounting and, accordingly, the results of operations of Elantec have been included in the accompanying financial schedules since the merger date.

QUARTERLY RESULTS

The following table sets forth the unaudited historical quarterly revenue of our product groups without our Discrete Power products group:

	Fiscal Year 2001			
(In millions)	Q1	Q2	Q3	Q4
Revenue				
Power Management	$ 35.7	$ 31.5	$ 40.5	$ 44.8
Elantec	—	—	—	—
Standard Analog	43.7	42.3	31.6	30.1
Wireless Networking	36.0	32.5	29.6	37.6
Automotive	12.4	12.0	11.7	9.1
Total Revenue	$127.8	$118.3	$113.4	$121.6

	Fiscal Year 2002			
(In millions)	Q1	Q2	Q3	Q4
Revenue				
Power Management	$ 43.0	$ 40.3	$ 46.9	$ 52.7
Elantec	—	13.1	25.0	25.5
Standard Analog	30.0	23.4	33.9	30.2
Wireless Networking	49.0	58.1	74.7	56.2
Automotive	12.1	9.4	10.8	15.4
Total Revenue	$134.1	$144.3	$191.3	$180.0

Our Power Management products are designed into desktop and notebook computers, file servers, workstations and a variety of portable computing devices. Elantec focuses on optical storage (CD and DVD recordable), LCD flat panel display and DSL markets. The Standard Analog portfolio includes switches, MUXes and interface devices for computing, communications, test and instrumentation, medical, industrial and other applications. Wireless Networking products are used for Wireless LAN (WLAN) including a variety of 802.11 standards. Lastly, we sold analog products for the automotive industry. With the sale of our Findlay facility in September 2002, we have discontinued the production of automotive products and do not expect the revenue from this product line to be material in fiscal year 2003.

During the first three quarters of 2001, the semiconductor industry experienced a downturn in demand. Since that time, the industry has stabilized, but has yet to see a meaningful recovery. Despite a weak industry, we continue to gain market share in desktop and notebook power regulators. In addition, the wireless networking market grew significantly from the third quarter of 2001 to the third quarter of 2002. However, in the fourth quarter of 2002, Wireless Networking experienced customer-requested delayed shipments, which caused their revenue to decline sequentially.

Due to the addition of Elantec, the second quarter of fiscal year 2002 includes some changes which inhibit the comparability to previous quarters. The change in our revenue recognition policy for sales to North American distributors reduced the revenues of Power Management, Standard Analog and Wireless Networking in the second quarter of 2002 by $3.4 million, $10.1 million and $1.2 million, respectively. Effective March 30, 2002, we began to recognize revenue to North American distributors on a sell-through basis. As such, we now recognize sales to North American distributors upon shipment to the end customer. Formerly, we recognized revenue from North American distributor sales upon shipment to the distributors.

FISCAL YEAR 2002 COMPARED WITH FISCAL YEAR 2001

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

	Year Ended		Year Ended	
(Dollars in thousands)	January 3, 2003	December 28, 2001	January 3, 2003	December 28, 2001
Revenue				
Power Management	$182,908	$152,441	28.2%	31.7%
Elantec	63,649	—	9.8	—
Standard Analog	117,540	147,801	18.1	30.7
Wireless Networking	237,956	135,589	36.6	28.2
Automotive	47,665	45,235	7.3	9.4
Total	649,718	481,066	100.0	100.0
Costs and expenses				
Cost of product sales	312,624	258,615	48.1	53.8
Research and development	131,044	106,087	20.2	22.1
Selling, general and administrative	111,728	93,526	17.2	19.4
Amortization	24,611	44,175	3.8	9.2
In-process research and development	53,816	—	8.3	—
Impairment of long-lived assets	6,159	7,583	0.9	1.6
Restructuring	5,324	32,419	0.8	6.7
Operating income (loss)	4,412	(61,339)	0.7	–12.8
Interest, net	(11,268)	(18,610)	–1.8	–3.9
Loss on investments	1,736	8,242	0.3	1.7
Gain (loss) before sales of certain operations, income taxes and extraordinary item	13,944	(50,971)	2.1	–10.6
Operating results of certain operations disposed of during 2001				
Net sales	—	38,460	—	8.0
Costs and expenses	—	(41,447)	—	–8.6
	—	(2,987)	—	–0.6
Gain on sale of certain operations	—	168,437	—	35.0
	—	165,450	—	34.4
Income before income taxes and extraordinary item	13,944	114,479	2.1	23.8
Income taxes	18,914	62,405	2.9	13.0
Income before extraordinary item	(4,970)	52,074	–0.8	10.8
Extraordinary item — loss on extinguishment of debt, net of tax effect	—	(12,185)	—	–2.5
Net income (loss)	$ (4,970)	$ 39,889	–0.8%	8.3%

Note: Percentages may not add due to rounding.

Revenue

Revenue from continuing operations for the 53 weeks ended January 3, 2003 increased 35.1% to $649.7 million from $481.1 million during the 52 weeks ended December 28, 2001. The increase resulted primarily from the continued growth in demand for our Wireless Networking PRISM WLAN solutions as well as market share gains by our Power Management products during 2002. Also, the addition of Elantec contributed $63.6 million in revenue for the 53 weeks ended January 3, 2003.

Geographically, 62.5%, 24.1% and 13.4% of product sales were derived in Asia/Pacific, North America and Europe, respectively, during the 53 weeks ended January 3, 2003 compared to 48.0%, 32.9% and 19.1% during the 52 weeks ended December 28, 2001. As discussed above, we changed our revenue recognition for sales to North American distributors and as a result, the percentage of sales attributable to North American customers decreased in the second quarter of 2002. We continue to see a shift in demand to the Asia/Pacific region.

Gross Profit

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 53 weeks ended January 3, 2003 gross profit on product sales increased 51.5% to $337.1 million from $222.5 million in the 52 weeks ended December 28, 2001. As a percentage of sales, gross margin was 51.9% during the 53 weeks ended January 3, 2003 compared to 46.2% during the 52 weeks ended December 28, 2001. This improvement in gross margins resulted from the closure of our Findlay facility, cost reductions for raw materials and an increase in sales of our higher margin products. In the quarter ended March 30, 2001, we recorded an inventory charge of $19.2 million due to the exit of product lines and obsolescence related to changing market conditions.

The semiconductor industry has historically experienced declining selling prices over the past 15 years, and we expect that trend to continue in the future. However, we expect to realize a shift to higher margin products, productivity gains and material cost reductions that will substantially offset the decline in average selling prices and therefore do not anticipate a significant adverse effect on our financial condition.

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 23.5% to $131.0 million during the 53 weeks ended January 3, 2003 from $106.1 million during the 52 weeks ended December 28, 2001. The acquisition of Elantec and increased spending in Power Management were the two primary drivers for the increase. We also continue to invest in wireless networking technologies. As a percentage of sales, R&D expenses decreased to 20.2% for the 53 weeks ended January 3, 2003 from 22.1% for the 52 weeks ended December 28, 2001 due to increased revenue in fiscal year 2002. In 2003, we expect to continue to increase our spending in our primary growth engines.

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

SG&A costs, which include marketing, selling, general and administrative expenses increased to $111.7 million during the 53 weeks ended January 3, 2003 from $93.5 million during the 52 weeks ended December 28, 2001. This increase is primarily due to the addition of Elantec. However, as a percentage of sales, SG&A costs decreased to 17.2% for the 53 weeks ended January 3, 2003 from 19.4% for the 52 weeks ended December 28, 2001. We are progressing on the integration of the Elantec acquisition and expect to see additional savings from synergies in 2003.

Amortization

Amortization of intangible assets and unearned compensation decreased to $24.6 million during the 53 weeks ended January 3, 2003 from $44.2 million during the 52 weeks ended December 28, 2001. The decrease was the result of the adoption of FAS 142, which disallows the amortization of goodwill and indefinite lived assets. This decrease was partially offset by the additional amortization of unearned compensation resulting from the Elantec merger. Definite lived assets are being amortized over their useful lives ranging from seven to 11 years. We expect amortization to be $21.9 million during fiscal year 2003 of which $9.6 will be from intangible assets.

Currently, FAS 142 requires testing goodwill for impairment at least annually while checking for impairment indicators quarterly. During the fourth quarter of 2002, we determined that the value of each of our reporting units exceeded its book value. Therefore, no impairments were taken. Depending on the future market demand for our products, among other factors, we could experience an impairment on this balance.

Restructuring and Other Charges

As part of the merger with Elantec, we accrued for restructuring activities relating to the consolidation of the combined entity's business operations. The restructuring plans included the costs associated with the reduction in workforce and the exit of duplicate processes and locations. As a result of the restructuring we recorded a charge of $5.3 million ($3.4 million after tax) during the quarter ended June 28, 2002. The plans included the exit of various sales offices and the termination of redundant distribution channels worldwide.

In March 2001, the Board of Directors approved and we announced several major restructuring activities to improve ongoing 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 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) during the quarter ended March 30, 2001. Benefits from these restructurings are being 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)	Balance December 28, 2001	Additions	Utilizations	Balance January 3, 2003
Employee termination costs				
Findlay plant closure	$13.6	$ —	$ (9.4)	$4.2
Sales force reduction	—	3.5	(2.5)	1.0
	13.6	3.5	(11.9)	5.2
Other exit costs				
Findlay facility decommission costs	4.1	—	(3.8)	0.3
SiCOM asset removal and related costs	—	0.6	(0.1)	0.5
SiCOM contract cancellation costs	0.2	—	(0.2)	—
Sales channel consolidation costs	—	1.2	(0.6)	0.6
	4.3	1.8	(4.7)	1.4
Total restructuring costs	$17.9	$5.3	$(16.6)	$6.6

Elantec Acquisition

On May 14, 2002, we consummated the merger with Elantec by using our Class A common stock and cash to purchase 100% of the outstanding common stock of the Milpitas, California-based company. Elantec designed, manufactured and marketed high performance analog solutions to manufacturers in the markets for video, optical storage, communications and power management products. We entered into this merger to expand into additional high growth analog markets. Intersil and Elantec also shared a significant number of customers and had complementary product portfolios. The merger was accounted for using the purchase method of accounting and, accordingly, the results of operations of Elantec have been included in our results since the merger date. Consideration for the merger with Elantec consisted of cash, common stock and options to purchase common stock.

Pursuant to the merger, each outstanding share of Elantec common stock was converted into 1.24 shares of our Class A common stock and $8.00 cash, without interest. The source of funds for the cash portion of the purchase price was working capital. Under the terms of the merger agreement, we issued 29,587,331 shares of our Class A common stock for 100% of Elantec's outstanding common stock. This issuance had an impact of 18.7 million shares on our basic and diluted outstanding share amounts, which are used for earnings per share purposes.

As a result of the merger, we incurred transaction related fees of $20.9 million. We also incurred costs of $7.1 million relating to efforts undertaken to exit certain activities deployed by Elantec. Finally, $34.3 million of the purchase price was allocated to future periods in the form of unearned compensation, which resulted from the intrinsic value of the aforementioned options. The unearned compensation costs will be recognized over the remaining vesting period of the options as expense in arriving at operating income. The table below summarizes the components of the purchase price (in millions):

Common stock issued	$ 959.2
Value of options issued	221.1
Cash paid	190.9
Transaction costs incurred	20.9
Exit costs incurred	7.1
Unearned compensation	(34.3)
Total purchase price	$1,364.9

The purchase price allocation, which is subject to change based on actual costs incurred, is as follows (in millions):

Tangible current assets	$ 232.1
Tangible long-term assets	17.4
Tangible liabilities	(9.6)
Developed technology	12.4
Acquired in-process research and development	53.8
Goodwill	1,060.3
Deferred tax liability	(4.7)
Tax benefit from exercise of vested options	3.2
Total purchase price	$1,364.9

Included in the purchase price of the Elantec merger are $7.1 million in accrued costs arising out of our plan to exit certain activities deployed by Elantec. In accordance with Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" or EITF 95-3, these costs were considered in the purchase price allocation of the Elantec merger. The restructuring plan includes termination benefits and other costs incurred in our exit of Elantec's fabrication facility in Milpitas, California and the elimination of certain Elantec sales and marketing activities. The restructuring plan was formalized in May 2002, and is currently funded from working capital as intended by the plan. As a result of the merger, 106 Elantec employees were notified that their employment would be terminated and of the specifics of their severance benefits. As of January 3, 2003, approximately 35% of the affected employees had been terminated. The remaining employees will be terminated over the next six months.

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. During fiscal year 2003, we estimate the cost savings of the restructuring plan to be approximately $15 to $18 million. A summary of the restructuring costs and the remaining accrual follows:

(In millions)	Additions	Utilization	Balance January 3, 2003
Employee termination costs	$3.6	$(0.9)	$2.7
Milpitas plant closure costs	2.4	(0.1)	2.3
Sales office closure costs	1.1	(0.1)	1.0
Total restructuring costs	$7.1	$(1.1)	$6.0

Employee Termination Costs

As a result of the acquisition of Elantec, 24 Intersil employees were notified that their employment would be terminated and of the specifics of their severance benefits. These positions included primarily selling employees of whom 13 were located in the United States, 7 in Europe and 4 in Asia. As of January 3, 2003, approximately 80% of the affected employees had been terminated. The remaining employees will be terminated over the next three months.

In connection with the March 2001 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. The sale of the Findlay, Ohio manufacturing operation was completed late in September 2002. As of January 3, 2003, all of the affected employees had been terminated.

Other Exit Costs

Other exit costs include costs to decommission (removal of semiconductor specific equipment and leasehold improvements) the Findlay site to a marketable condition. In the quarter ended March 30, 2001, 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 planned exit of the modem board assembly manufacturing process and recognized the associated termination costs as part of this restructuring. The integration of Elantec resulted in the termination of several lease commitments as well as obligations with external sales representatives.

Impairment of Long-Lived Assets

In connection with the closure of the Findlay, Ohio manufacturing operation, we recorded an impairment of $7.6 million ($3.7 million after tax) in property, plant and equipment during the quarter ended March 30, 2001. 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. During the quarter ended June 28, 2002, we recorded an additional impairment of $3.6 million ($2.3 million after tax) on these assets as determined by the contractual sales price. The sale of the operation was completed during the quarter ended October 4, 2002.

Gain (Loss) on Investments

During the quarter ended June 28, 2002, we recorded an impairment charge of $3.0 million ($2.0 million after tax) related to an investment contained within the other long-term asset section of the balance sheets. As we hold less than 20% equity ownership with no indicators of influence in the investee and the shares are not readily traded on a major stock exchange, this investment was held at cost. The impairment reflects the excess of the investment's carrying value over the estimated undiscounted cash flows resulting from the eventual disposal of the securities.

Also, during the quarter ended June 28, 2002, we recorded a gain of $1.3 million ($0.8 million after tax) from the sale of our investment in PowerSmart, Inc. The gain was calculated as the excess of the proceeds from disposition of the investment over the carrying value.

Marketable securities consist of shares of ChipPAC, Inc. ("ChipPAC") common stock that have been classified as investments on the balance sheet. They are recorded at fair value, which is determined based on quoted market prices. During the quarter ended March 30, 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. As of January 3, 2003, we carried an unrealized loss on the investment of $2.6 million, before taxes. This loss is currently deemed temporary given the recent trading prices of the stock as well as other qualitative characteristics considered by our management. We will continue to monitor the stock price and should the market value remain significantly below our carrying value, we may take an additional impairment.

Gain on Sale of Certain Operations

On March 16, 2001, we sold the assets of our Discrete Power products group to Fairchild Semiconductor Corporation ("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 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 five in Asia. All of the affected employees have been terminated.

Other exit costs included information technology costs required to cover transferred software license fees and system modifications necessary to support the business transition activity. We wrote off $14.8 million of intangible assets as well as other miscellaneous assets attributable to the Discrete Power products group. We also closed three foreign sales offices as a result of the sale.

In-Process Research and Development

In connection with the merger with Elantec in May 2002, we allocated $53.8 million of the purchase price to in-process research and development projects. This allocation represents the estimated fair value based on risk-adjusted cash flows related to the incomplete projects. At the date of acquisition, the development of these projects had not yet reached technological feasibility and the in-process research and development had no alternative future uses and did not otherwise qualify for capitalization. Accordingly, these costs were expensed as a one-time charge to earnings in the quarter ended June 28, 2002.

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 eight years of after tax cash flow projections depending on the individual project. We used a discount rate of 13% based on an approximation of the cost of capital. The percentage of completion for the projects ranges from 10% to 90%, and the total cost to complete all projects is approximately $38.4 million. We estimate that all projects will be complete by the third quarter of fiscal year 2003. The various project groupings, the cost to complete the projects and the average percentage complete within each grouping are reported below:

Project Group	Number of Projects	Cost to Complete	Average Percent Complete	Value Assigned to Project
Optical Storage	61	$ 9.3	53%	$13.8
Communications	7	1.1	50	1.6
DC/DC Converters	26	8.2	26	5.8
Amplifiers and Comparators	83	8.2	13	18.6
Other Video	46	9.1	14	10.2
TFT Buffers	17	2.5	25	3.8
Total	240	$38.4		$53.8

These estimates, which were developed by an independent third party, are subject to change given the uncertainties of the development process, and no assurance can be given that deviations from these estimates will not occur. We expect to continue these development efforts and believe we have a reasonable chance of successfully completing the research and development programs. However, there is risk associated with the completion of the projects and there is no assurance that any will meet either technological or commercial success.

Interest Income/Expense

Interest income decreased to $12.1 million during the 53 weeks ended January 3, 2003 from $20.9 million during the 52 weeks ended December 28, 2001. The decrease was due to a decrease in short-term interest rates during fiscal years 2001 and 2002. Interest expense also decreased to $0.9 million for the 53 weeks ended January 3, 2003 from $2.3 million for the 52 weeks ended December 28, 2001. This decrease was due to the elimination of our long-term debt during the first quarter of fiscal year 2001.

Tax Expense

The tax provision for the 53 weeks ended January 3, 2003 differs from the tax provision for the 52 weeks ended December 28, 2001 due to the gain generated from the sale of our Discrete Power products group and the other restructuring activities that were recorded during the first quarter of fiscal year 2001 as well as the write-off of in-process R&D in fiscal year 2002. We expect our effective tax rate to be approximately 27% to 30% for fiscal year 2003.

Extraordinary Item

During the quarter ended March 30, 2001, we tendered all $61.4 million of our outstanding 13.25% senior subordinated notes in the open market. These payments included certain premiums 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.

Backlog

We had backlog at January 3, 2003 of $131.3 million compared to $120.8 million at December 28, 2001.

FISCAL YEAR 2001 COMPARED WITH COMBINED YEAR 2000

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

(In thousands)	Year Ended December 28, 2001	Year Ended Combined December 29, 2000	Year Ended December 28, 2001	Year Ended Combined December 29, 2000
Revenue				
Wireless Access	$135,589	$ 163,065	28.2%	27.8%
Communications Analog	177,393	206,994	36.9	35.3
Other Analog	168,084	216,803	34.9	36.9
Total	481,066	586,862	100.0	100.0
Costs and expenses				
Cost of product sales	258,615	304,520	53.8	51.9
Research and development	106,087	84,885	22.1	14.5
Selling, general and administrative	93,526	119,675	19.4	20.4
Amortization	44,175	20,815	9.2	3.5
In-process research and development	—	25,440	—	4.3
Impairment of long-lived assets	7,583	—	1.6	—
Restructuring	32,419	—	6.7	—
Other	—	1,177	—	0.2
Operating income (loss)	(61,339)	30,350	–12.8	5.2
Loss on sale of Malaysian operation	—	24,825	—	4.2
Interest, net	(18,610)	11,343	–3.9	1.9
Loss on investments	8,242	—	1.7	—
Loss before sale of certain operations, income taxes, extraordinary item and cumulative effect of a change in accounting principle	(50,971)	(5,818)	–10.6	–1.0
Operating results of certain operations disposed of during 2001				
Net sales	38,460	210,694	8.0	35.9
Costs and expenses	(41,447)	(158,049)	–8.6	–26.9
	(2,987)	52,645	–0.6	9.0
Gain on sale of certain operations	168,437	—	35.0	—
	165,450	52,645	34.4	9.0
Income before income taxes, extraordinary item and cumulative effect of a change in accounting principle	114,479	46,827	23.8	8.0
Income taxes	62,405	29,071	13.0	5.0
Income before extraordinary item and cumulative effect of a change in accounting principle	52,074	17,756	10.8	3.0
Extraordinary item — loss on extinguishment of debt, net of tax effect	(12,185)	(31,409)	–2.5	–5.4
Income (loss) before cumulative effect of a change in accounting principle	39,889	(13,653)	8.3	–2.3
Cumulative effect of adoption of FAS 133, net of tax effect	—	(197)	—	–0.0
Net income (loss)	$ 39,889	$ (13,850)	8.3%	–2.4%

Note: Amounts may not add due to rounding.

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 slow down 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 Asian-based customers and increased customer use of Asian-based contract manufacturers.

Gross Profit

In the 52 weeks ended December 28, 2001, gross profit 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.

Research and Development ("R&D")

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% to 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 chipset is expected to be the first programmable broadband wireless modem chipset 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 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.

Amortization

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 combined 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 five 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 combined year 2000 and into the first quarter of fiscal 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 networking 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 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)	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 were terminated by the third quarter of 2002.

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.

Gain (Loss) 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 five in Asia/Pacific. As of December 28, 2001, approximately 86% of the affected employees had been terminated with the balance terminated by 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 required 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 three foreign sales offices that were closed by March 31, 2002 as a result of the sale.

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 fiscal 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 fiscal year 2001.

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 January 3, 2003, our total shareholders' equity was $2,202.7 million.

The following table sets forth the Company's future contractual obligations and off balance sheet arrangements as of January 3, 2003:

(In millions)	2003	2004	2005	2006	2007
Future minimum lease commitments	$ 4.1	$2.9	$1.9	$0.4	$0.4
Open capital equipment purchase commitments	$ 5.4	—	—	—	—
Open raw material purchase commitments	$23.3	—	—	—	—
Standby letters of credit	$ 3.7	—	—	—	—
	$36.5	$2.9	$1.9	$0.4	$0.4

Net cash provided by operating activities for the 53 weeks ended January 3, 2003 was $101.4 million. Net cash used by investing activities for the 53 weeks ended January 3, 2003 was $105.3 million, primarily related to the acquisition of Elantec and purchases of manufacturing equipment. We have also used $33.5 million during the 53 weeks ended January 3, 2003 to invest in short-term securities to improve yields. Net cash used by financing activities for the 53 weeks ended January 3, 2003 was $9.2 million resulting from purchase of treasury stock under the stock repurchase plan offset by the proceeds of exercised stock options. Our cash, cash equivalents and short-term investments balance at January 3, 2003 was $623.6 million.

We have a treasury stock repurchase program which authorizes us to repurchase up to $50.0 million in our common stock, of which $30.5 million had been used as of January 3, 2003. The program was set to expire on September 26, 2002, but by a vote of the Board of Directors it has been extended through December of 2003.

We have separately classified on the face of the balance sheet our short-term investments, which consist of securities with maturities less than one year but greater than 90 days. These balances can be converted to cash upon request at a minimal discount. We have reclassified prior period balance sheet and cash flow information to conform with the current classification.

RECEIVABLES AND INVENTORIES

Trade accounts receivable less the allowance for collection losses totaled $93.9 million at January 3, 2003 compared to $55.2 million at December 28, 2001. Inventories increased to $86.0 million at January 3, 2003 from $67.9 million at December 28, 2001. The increases were primarily due to the acquisition of Elantec's assets.

Sales reserves fluctuate from year to year based on items such as the level of inventory at distributors and customer returns near year end. The sales reserves increased 60.5% to $6.1 million at January 3, 2003 from $3.8 million at December 28, 2001. This increase resulted from the merger with Elantec and the return of certain product shipments in which the parts had not been returned by year end.

CAPITAL EXPENDITURES

Capital expenditures were $53.0 million for the 53 weeks ended January 3, 2003 and $40.6 million for the 52 weeks ended December 28, 2001. The increase is due to the expansion of our fab facility in Palm Bay, Florida in order to accommodate the transfer of certain production processes from our Findlay, Ohio and Milpitas, California facilities as well as general capacity increases. Approximately 12% of our spending related to the transfer of Findlay related processes to Palm Bay.

TRANSACTIONS WITH RELATED AND CERTAIN OTHER PARTIES

We hold two receivable balances within other assets in our balance sheet resulting from loans made to two of our employees who are neither the CFO or CEO. The loans, which total $1.0 million at January 3, 2003, were made by Elantec prior to the merger as part of employment offers. The loans are recourse loans, and the security is in the form of second trust deeds on each employees' real property. Each loan earns interest in excess of the Prime Rate. The two loans are due on June 22, 2006 and April 18, 2007.

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 estimates, in addition to the inherent uncertainties pertaining to the estimates, and the possible effects on the Company's financial condition. The four accounting estimation processes discussed below are the allowance for collection losses on trade receivables, reserves for excess or obsolete inventory, distributor reserves and tax valuation allowance. 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 on trade receivables was $1.1 million on gross trade receivables of $95.0 million at January 3, 2003. 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 January 3, 2003. As the amount that we will actually collect on the receivables outstanding as of January 3, 2003 can not be known with exact certainty as of this document's effective date, we rely primarily 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 1% 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 to have collection problems. We then reserve a portion or all of the customer's balance.

The reserve for excess or obsolete inventory was $24.9 million at January 3, 2003. 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 January 3, 2003 can not 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 $1.8 million at January 3, 2003. Revenue is recognized from sales to all other customers, excluding North American distributors, when a product is shipped. Sales to international distributors are made under agreements, which provide the distributors certain price protection on and rights to periodically exchange a percentage of unsold inventory they hold. Accordingly, distributor reserves are amounts within the liability section of the balance sheet that estimate the amount of inventory adjustments that will be encountered in the future on the inventory that is held by international distributors as of the balance sheet date. As the amount of inventory held by international distributors as of January 3, 2003 that will be adjusted in the future cannot be known with certainty as of the date hereof, the Company relies primarily on historical international distributor transactions. The international distributor reserves comprise two components that are reasonably estimable. The first component of international distributor reserves is the 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 whereby the distributors can periodically exchange a percentage of older inventories with newer products. Actual price protection and stock rotation changes have historically been within management's expectations. International distributor reserves are combined with other product return reserves within the sales reserves line item on the balance sheet. These other product return reserves arise from the return of shipments in which the parts had not been returned by year end. These other product return reserves amounted to $4.3 million at January 3, 2003.

Effective March 30, 2002, we began to recognize revenue to North American distributors on a sell-through basis. As such, we now recognize sales to North American distributors upon shipment to the end customer. Formerly, we recognized revenue from North American distributor sales upon shipment to the distributors. The combination of the changes resulting from the integration with Elantec, changes in the distributor mix and changes in market pricing affect the estimability of customer acceptance.

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. We have not provided for a valuation allowance because we believe it is more likely than not that our deferred tax assets will be recovered from future taxable income. At January 3, 2003, our net deferred tax asset amounted to $49.9 million.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." The provisions of SFAS 143 require companies to record an asset and related liability for the costs associated with the retirement of a long-lived tangible asset if a legal liability to retire the asset exists. This standard is effective for fiscal years beginning after June 15, 2002. We do not believe this statement will have a significant impact on our financial statements.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 (SFAS 145), "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 will generally require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS 4. Extraordinary treatment will be required for certain extinguishments as provided in APB Opinion No. 30. The statement also amended SFAS 13 for certain sales-leaseback transactions and sublease accounting. The Company is required to adopt the provisions of SFAS 145 effective January 4, 2003. We do not expect the adoption of SFAS 145 to have a significant impact on our financial position and results of operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 (SFAS 146), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when a liability is incurred rather than when an exit or disposal plan is approved. We are required to adopt the provisions of SFAS 146 for any exit or disposal activities initiated after December 31, 2002. The effect of adoption of SFAS 146 will be a change on a prospective basis of the timing of when restructuring charges are recorded from a commitment date approach to when a liability is recorded.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of this interpretation are effective for interim and annual periods after December 15, 2002. The initial recognition and initial measurement requirements of this interpretation are effective prospectively for guarantees issued or modified after December 31, 2002. The interpretation's expanded disclosures will not have a material impact on our financial position or results of operations. We are assessing, but at this point do not believe the adoption of the recognition and initial measurement requirements of this interpretation will have a material impact on our financial position or results of operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS 148 are effective for financial statements issued for fiscal years ending after December 15, 2002, and are included in Note S to the consolidated financial statements. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. We have not completed the assessment as to whether the adoption of this statement will have a material impact on the financial position or results of operations.

In January 2003, the FAS issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities." This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities. Under current practice, two enterprises generally have been included in consolidated financial statements because one enterprise controls the other through voting interests. This interpretation defines the concept of "variable interests" and requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks among the parties involved. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when this interpretation becomes effective, the enterprise shall disclose information about those entities in all financial statements issued after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. Based on the recent release of this interpretation, we have not completed our assessment as to whether or not the adoption of this interpretation will have a material impact on our financial position or results of operations.

SUBSEQUENT EVENT

On January 28, 2003, we announced a restructuring plan designed to further streamline the workforce and reduce costs. This restructuring initiative was accounted for under the provisions of SFAS 146. The total cost of the plan will be approximately $1.7 million, which represents severance payments and outplacement related services. In accordance with SFAS 146, the severance related liability was recognized at the time the plan was communicated to employees as no service was required to obtain the benefits, while the liability related to the outplacement services is to be recognized upon receipt of the services. The plan affects 88 employees, 84 of which are located in the United States with the remainder in Europe.

Additionally, in the first quarter of 2003, we expect to release approximately $1.6 million of exit cost reserves which are located in the short term liability section of the balance sheet at January 3, 2003. These reserves were established in relation to the sale of the Discrete Power product group.

On March 17, 2003, we announced the settlement of the litigation arising from the alleged infringement with Proxim. The terms of the confidential settlement require us to make a one time cash payment and provide a rebate on the future sale of certain wireless products to Proxim. In accordance with Statement of Financial Accounting Standard No. 5, "Accounting for Contingencies," we recorded the amounts related to the settlement as an expense in cost of product sales in the fourth quarter of 2002. The liability is reflected in the other accrued items at January 3, 2003.

STOCK OPTION DISCLOSURES

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 originally authorized the grant of options for up to 7.5 million shares of Intersil Class A common stock 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 number of shares authorized for the Plan was increased to 17.5 million shares by the shareholders at the Annual Meeting of Shareholders held May 15, 2001.

Employee and Executive Option Grants

	2000	2001	2002
Net grants during the period as % of outstanding shares (#)	3.3%	2.1%	11.3%
Grants to listed officers* during the period as % of total options granted (%)	17.7%	25.4%	20.0%
Grants to listed officers* during the period as % of outstanding shares (%)	0.6%	0.5%	2.3%
Cumulative options held by listed officers* as % of total options outstanding (%)	15.4%	19.5%	21.7%

* See chart on following page

Summary of Option Activity

		Options Outstanding	
(Shares in thousands)	Shares Available for Options (#)	Number of Shares (#)	Weighted Average Exercise Price ($)
December 29, 2000	12,973	4,136	$25.72
Grants	(2,345)	2,345	$24.83
Options assumed in acquisitions	—	—	n/a
Exercises	—	(316)	$10.52
Cancellations	542	(542)	$25.26
Additional shares reserved	—	—	n/a
December 28, 2001	11,170	5,623	$26.50
Grants	(15,519)	15,519	$19.14
Options assumed in acquisitions	8,970	—	$16.90
Exercises	—	(905)	$ 6.36
Cancellations	893	(893)	$23.07
Additional shares reserved	—	—	n/a
January 3, 2003	5,514	19,344	$21.56

In-the-Money and Out-of-the-Money Option Information

	Exercisable		Unexercisable		Total	
As of January 3, 2003 (Shares in thousands)	Shares (#)	Weighted Average Exercise Price ($)	Shares (#)	Weighted Average Exercise Price ($)	Shares (#)	Weighted Average Exercise Price ($)
In-the-Money	3,287	$3.64	1,611	8.64	4,898	5.28
Out-of-the-Money	4,309	29.95	10,137	25.85	14,446	27.07
Total Options Outstanding	7,596	18.56	11,748	23.49	19,344	$21.56

The following table provides information concerning stock options granted to the executive officers named in the Summary Compensation Table during fiscal year 2002.

Fiscal Year 2002 Option/SAR Grants

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[4]	
	Number of Securities Underlying Options[1]	Percentage of All Options Granted to All Employees in Period[2]	Exercise Price	Expiration Date[3]	5%	10%
Gregory L. Williams	75,000	0.5%	$33.38	01/02/2012	$ 1,574,438	$ 3,989,934
	75,000	0.5%	$28.58	04/01/2012	$ 1,348,036	$ 3,416,187
	75,000	0.5%	$24.24	05/09/2012	$ 1,143,330	$ 2,897,424
	75,000	0.5%	$19.80	07/01/2012	$ 933,909	$ 2,366,708
	75,000	0.5%	$12.87	10/01/2012	$ 607,041	$ 1,538,360
	75,000	0.5%	$14.45	01/02/2013	$ 930,785	$ 2,124,061
Richard M. Beyer	945,403[5]	6.1%	$37.64	07/12/2010	$22,379,196	$56,713,276
	138,689[5]	0.9%	$26.29	01/16/2011	$ 2,293,034	$ 5,810,998
	3,082[5]	0.0%	$16.80	04/17/2011	$ 32,563	$ 82,520
	169,509[5]	1.1%	$24.25	12/20/2011	$ 2,585,130	$ 6,551,227
	15,409[5]	0.1%	$26.45	01/14/2012	$ 256,317	$ 649,559
	600,000	3.9%	$30.21	05/14/2012	$11,399,344	$28,888,176
Daniel J. Heneghan	30,000	0.2%	$33.38	01/02/2012	$ 629,775	$ 1,595,974
	30,000	0.2%	$28.58	04/01/2012	$ 539,214	$ 1,366,475
	30,000	0.2%	$24.24	05/09/2012	$ 457,332	$ 1,158,970
	30,000	0.2%	$19.80	07/01/2012	$ 373,563	$ 946,683
	30,000	0.2%	$12.87	10/01/2012	$ 242,816	$ 615,344
	60,000	0.4%	$16.49	10/29/2012	$ 622,228	$ 1,576,849
	30,000	0.2%	$14.45	01/02/2013	$ 272,626	$ 690,887
Larry J. Ciaccia	27,500	0.2%	$33.38	01/02/2012	$ 577,294	$ 1,462,976
	27,500	0.2%	$28.58	04/01/2012	$ 494,280	$ 1,252,602
	27,500	0.2%	$24.24	05/09/2012	$ 419,221	$ 1,062,389
	27,500	0.2%	$19.80	07/01/2012	$ 342,433	$ 867,793
	27,500	0.2%	$12.87	10/01/2012	$ 222,582	$ 564,065
	40,000	0.3%	$16.49	10/29/2012	$ 414,819	$ 1,051,233
	27,500	0.2%	$14.45	01/02/2013	$ 249,907	$ 633,313
Rick E. Furtney	27,500	0.2%	$33.38	01/02/2012	$ 577,294	$ 1,462,976
	27,500	0.2%	$28.58	04/01/2012	$ 494,280	$ 1,252,602
	27,500	0.2%	$24.24	05/09/2012	$ 419,221	$ 1,062,389
	27,500	0.2%	$19.80	07/01/2012	$ 342,433	$ 867,793
	27,500	0.2%	$12.87	10/01/2012	$ 222,582	$ 564,065
	50,000	0.3%	$16.49	10/29/2012	$ 518,524	$ 1,314,041
	27,500	0.2%	$14.45	01/02/2013	$ 249,907	$ 633,313
Stephen M. Moran	15,000	0.1%	$33.38	01/02/2012	$ 314,888	$ 797,987
	15,000	0.1%	$28.58	04/01/2012	$ 269,607	$ 683,237
	15,000	0.1%	$24.24	05/09/2012	$ 228,666	$ 579,485
	15,000	0.1%	$19.80	07/01/2012	$ 186,782	$ 473,342
	15,000	0.1%	$12.87	10/01/2012	$ 121,408	$ 307,672
	25,000	0.2%	$16.49	10/29/2012	$ 259,262	$ 657,020
	15,000	0.1%	$14.45	01/02/2013	$ 136,313	$ 345,444
	3,097,092					

[1] These options vest in 25% increments on the first four anniversaries of the grant date.

[2] A total of 6,550,065 options were granted to Intersil employees under the Intersil 1999 Equity Compensation Plan during the fiscal year ended January 3, 2003; also, a total of 8,969,763 Elantec options were converted to Intersil options in accordance with the merger agreement. In total, 15,519,828 options were granted during the fiscal year ended January 3, 2003.

[3] The options will expire 10 years after the grant date.

[4] Represents the potential realizable value of the underlying shares of Intersil common stock at the expiration date based on an assumed annual appreciation rate of 5% and 10% of the exercise price, set by the Securities and Exchange Commission. The amounts shown are not intended to forecast future appreciation in the price of our Class A Common Stock.

[5] A portion of Richard M. Beyer's stock option grants represent prior Elantec options converted during 2002 to Intersil options due to the merger of Elantec Semiconductor, Inc. and Intersil Corporation on 5/14/02.

The following sets forth information regarding the number and value of options held by the executive officers named in the Summary Compensation Table during fiscal year 2002:

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values

	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Year-End		Net Value of Unexercised In-the-Money Options at Year-End[1]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Gregory L. Williams	—	$ —	214,892	740,250	$111,445	$106,500
Richard M. Beyer	—	$ —	683,097	1,188,995	$ —	$ —
Daniel J. Heneghan	—	$ —	85,862	360,501	$ 22,293	$ 42,600
Larry J. Ciaccia	—	$ —	67,833	305,501	$ —	$ 39,050
Rick E. Furtney	—	$ —	51,833	291,501	$ —	$ 39,050
Stephen M. Moran	—	$ —	35,895	167,439	$ —	$ 21,300

[1] Reflects net pre-tax amounts determined by subtracting the exercise price from $14.29 per share, the fair market value of common stock at the end of fiscal year 2002.

Plan Category (Shares in millions)	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (#)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights ($)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column 1)
Equity compensation plans approved by shareholders:			
SiCOM Dutch Converted Plan	130	$ 9.11	—
Elantec, Inc. 1994 Equity Incentive Plan	139	$ 1.50	—
Elantec 1995 Directors Stock Option Plan	—	$ 0.00	—
Elantec 1995 Equity Incentive Plan	6,299	$17.06	—
Elantec 2001 Equity Incentive Plan	1,477	$23.97	—
1999 Equity Compensation Plan	11,262	$24.21	5,514
No Wires Needed B.V. Stock Option Plan	37	$ 2.00	—
Equity compensation plans not approved by shareholders	None		
Total	19,344		5,514

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, entered into for purposes other than trading purposes, to manage our exposure to these risks.

At January 3, 2003, we had open foreign exchange contracts with a notional amount of $17.8 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 losses on foreign exchange contracts for the 53 weeks ended January 3, 2003 were $1.0 million. During the 53 weeks ended January 3, 2003, we purchased and sold $93.9 million of foreign exchange forward contracts. The derivatives were also recognized on the balance sheet at their fair value, which was nominal, at January 3, 2003. The table below summarizes our foreign exchange contract activity over the past two years (in millions):

	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
Gain (loss) on foreign exchange contracts	$ 0.9	$ (1.0)
Purchases and sales of foreign exchange contracts	$25.8	$93.9
Notional amount of open contracts at year end	$ 9.6	$17.8
Fair value of open contracts at year end	$ 0.5	$ 0.1

The merger with Elantec and our increased sales volume in Asia are the primary factors for the increase in the purchases and sales of foreign exchange contracts.

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 January 3, 2003 would have an impact of approximately $0.8 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 1998, 1999 and for the six weeks ended August 13, 1999 are derived from our predecessor's audited consolidated financial statements, which are not included elsewhere in this report. The historical financial data as of and for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, the 52 weeks ended December 28, 2001 and the 53 weeks ended January 3, 2003 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 year 1998, the results of operations of our Discrete Power products group are not available from our predecessor's records. The 53 weeks ended January 3, 2003 includes the results of our Elantec product group from May 14, 2002, which was the date of the merger.

SELECTED FINANCIAL DATA

(Dollars in millions, except per share amounts)	Predecessor Fiscal Years 1998	Predecessor Fiscal Years 1999	Predecessor Six Weeks Ended August 13, 1999	Successor 46 Weeks Ended June 30, 2000	Successor 26 Weeks Ended December 29, 2000	Successor 52 Weeks Ended December 28, 2001	Successor 53 Weeks Ended January 3, 2003
STATEMENT OF OPERATIONS DATA:							
Revenue	$576.8	$ 371.0	$ 36.6	$ 411.7	$ 330.9	$ 481.1	$ 649.7
Costs and expenses							
Gross profit	207.5	145.8	12.0	180.8	169.5	222.5	337.1
Research and development	75.1	58.4	7.5	60.3	47.0	106.1	131.0
Selling, general and administrative	98.2	77.7	10.1	89.4	65.3	93.5	111.8
Harris corporate expense allocation	10.0	9.3	1.2	—	—	—	—
Amortization of intangibles and unearned compensation	2.3	2.4	0.3	9.0	15.3	44.2	24.6
In-process research and development	—	—	—	20.2	25.4	—	53.8
Impairment of long-lived assets	—	—	—	—	—	7.6	6.2
Restructuring	—	—	—	—	—	32.4	5.3
Other	—	—	—	1.2	—	—	—
Operating income (loss)	21.9	(2.0)	(7.1)	0.7	16.5	(61.3)	4.4
Loss on sale of Malaysian operation	—	—	—	24.8	—	—	—
Loss on investments	—	—	—	—	—	8.2	1.7
Interest, net	(0.9)	(1.2)	(0.1)	38.3	(2.6)	(18.6)	(11.2)
Income (loss) before sale of certain operations, income taxes, extraordinary item and cumulative effect of a change in accounting principle	22.8	(0.8)	(7.0)	(62.4)	19.1	(50.9)	13.9
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	22.8	21.4	(3.1)	(17.5)	43.9	114.5	13.9
Income taxes (benefit)	9.9	(6.0)	(0.1)	(0.3)	30.8	62.4	18.9
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	12.9	27.4	(3.0)	(17.2)	13.1	52.1	(5.0)
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	12.9	27.4	(3.0)	(42.7)	7.2	39.9	(5.0)
Cumulative effect of adoption of FAS 133, net of tax effect	—	—	—	—	(0.2)	—	—
Net income (loss)	12.9	27.4	(3.0)	(42.7)	7.0	39.9	(5.0)
Preferred dividends	—	—	—	5.4	—	—	—
Net income (loss) to common shareholders	$ 12.9	$ 27.4	$ (3.0)	$ (48.1)	$ 7.0	$ 39.9	$ (5.0)
Basic earnings (loss) per share:							
Income (loss) before extraordinary item				$ (0.30)	$ 0.13	$ 0.49	$ (0.04)
Extraordinary item				(0.33)	(0.06)	(0.11)	—
Income (loss) per share				$ (0.63)	$ 0.07	$ 0.38	$ (0.04)
Diluted earnings (loss) per share:							
Income (loss) before extraordinary item				$ (0.30)	$ 0.13	$ 0.48	$ (0.04)
Extraordinary item				(0.33)	(0.06)	(0.11)	—
Income (loss) per share				$ (0.63)	$ 0.07	$ 0.37	$ (0.04)
Weighted average common share outstanding:							
Basic				76.7	101.0	105.7	125.6
Diluted				76.7	105.2	108.9	125.6
BALANCE SHEET DATA (END OF PERIOD):							
Cash, cash equivalents and short-term investments	$ —	$ —	$ 1.4	$ 211.9	$ 352.6	$ 601.5	$ 623.6
Total assets	810.3	761.2	736.1	933.9	1,229.8	1,200.2	2,368.5
Long-term debt, including current portion	4.1	4.6	4.5	116.6	65.5	—	—
Total shareholders' equity/business equity	699.1	658.9	657.3	679.0	1,011.0	1,057.2	2,202.7

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
Revenue				
Product Sales	$ 411,723	$330,895	$481,066	$649,718
Costs and expenses				
Cost of product sales	230,927	161,391	258,615	312,624
Research and development	60,316	46,990	106,087	131,044
Selling, general and administrative	89,369	65,305	93,526	111,728
Amortization of intangibles and unearned compensation	9,024	15,271	44,175	24,611
In-process research and development	20,239	25,440	—	53,816
Impairment of long-lived assets	—	—	7,583	6,159
Restructuring	—	—	32,419	5,324
Other	1,178	—	—	—
Operating income (loss)	670	16,498	(61,339)	4,412
Loss on sale of Malaysian operation	24,825	—	—	—
Interest expense	41,924	6,788	2,263	870
Interest income	3,707	9,335	20,873	12,138
Loss on investments	—	—	8,242	1,736
Income (loss) before sale of certain operations, income taxes, extraordinary item and cumulative effect of a change in accounting principle	(62,372)	19,045	(50,971)	13,944
Operating results of certain operations disposed of during 2001				
Net sales	185,127	104,557	38,460	—
Costs and expenses	(140,234)	(79,746)	(41,447)	—
	44,893	24,811	(2,987)	—
Gain on sale of certain operations	—	—	168,437	—
	44,893	24,811	165,450	—
Income (loss) before income taxes, extraordinary item and cumulative effect of change in accounting principle	(17,479)	43,856	114,479	13,944
Income taxes (benefit)	(289)	30,759	62,405	18,914
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	(17,190)	13,097	52,074	(4.970)
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	(42,708)	7,206	39,889	(4,970)
Cumulative effect of adoption of FAS 133, net of tax effect	—	(197)	—	—
Net income (loss)	(42,708)	7,009	39,889	(4,970)
Preferred dividends	5,391	—	—	—
Net income (loss) to common shareholders	$ (48,099)	$ 7,009	$ 39,889	$ (4,970)
Basic income (loss) per share:				
Income (loss) before extraordinary item	$ (0.30)	$ 0.13	$ 0.49	$ (0.04)
Extraordinary item	(0.33)	(0.06)	(0.11)	—
Net income (loss)	$ (0.63)	$ 0.07	$ 0.38	$ (0.04)
Diluted income (loss) per share:				
Income (loss) before extraordinary item	$ (0.30)	$ 0.13	$ 0.48	$ (0.04)
Extraordinary item	(0.33)	(0.06)	(0.11)	—
Net income (loss)	$ (0.63)	$ 0.07	$ 0.37	$ (0.04)
Weighted average common shares outstanding (in millions):				
Basic	76.7	101.0	105.7	125.6
Diluted	76.7	105.2	108.9	125.6

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
Net income (loss)	$(42,708)	$ 7,009	$39,889	$(4,970)
Other comprehensive income (loss):				
Currency translation adjustments	1,636	(3,309)	(366)	614
Unrealized gain (loss) on available-for-sale securities	—	—	1,676	(3,367)
Comprehensive income (loss)	$(41,072)	$ 3,700	$41,199	$(7,723)

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(In thousands)	December 28, 2001	January 3, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 554,119	$ 542,766
Short-term investments	47,334	80,836
Trade receivables, less allowances for collection loss ($534 as of December 28, 2001 and $1,107 as of January 3, 2003)	55,178	93,894
Inventories	67,888	85,967
Prepaid expenses and other current assets	9,122	9,448
Deferred income taxes	33,807	34,267
Total Current Assets	767,448	847,178
Other Assets		
Property, plant and equipment, less allowances for depreciation	140,068	161,375
Goodwill, less accumulated amortization	172,466	1,232,723
Other intangibles, less accumulated amortization	68,612	71,685
Investments	39,233	32,464
Deferred income taxes	—	15,647
Related party notes	—	1,000
Other	12,406	6,382
Total Other Assets	432,785	1,521,276
Total Assets	$1,200,233	$2,368,454
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade payables	$ 24,323	$ 37,539
Retirement plan accruals	3,051	10,261
Accrued compensation	27,435	21,383
Accrued interest and sundry taxes	2,792	2,336
Deferred revenue	—	12,407
Exit costs	6,037	3,029
Restructuring costs	17,875	12,577
Other accrued items	26,454	35,780
Sales reserves	3,792	6,103
Income taxes payable	24,732	24,368
Total Current Liabilities	136,491	165,783
Other Liabilities		
Deferred income taxes	6,494	—
Shareholders' Equity		
Preferred Stock, $0.01 par value, 100,000 shares authorized, no shares issued or outstanding	—	—
Class A Common Stock, $.01 par value, voting; 300,000,000 shares authorized, 90,565,018 shares outstanding at December 28, 2001 and 129,140,657 shares outstanding at January 3, 2003	906	1,290
Class B Common Stock, $.01 par value, non-voting; 300,000,000 shares authorized, 16,282,475 shares outstanding at December 28, 2001 and 7,786,719 shares outstanding at January 3, 2003	163	78
Additional paid-in capital	1,065,341	2,228,925
Retained earnings (deficit)	4,190	(780)
Unearned compensation	(1,056)	(20,104)
Accumulated other comprehensive loss	(363)	(3,116)
Treasury shares, at cost	(11,933)	(3,622)
Total Shareholders' Equity	1,057,248	2,202,671
Total Liabilities and Shareholders' Equity	$1,200,233	$2,368,454

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
OPERATING ACTIVITIES:				
Net income (loss)	$ (42,708)	$ 7,009	$ 39,889	$ (4,970)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization	61,288	35,745	72,288	53,477
Provisions for inventory obsolescence	23,906	17,760	21,136	3,559
Write-off of in-process research and development	20,239	25,440	—	53,816
Write-off of unearned compensation	878	—	—	—
Loss on sale of Malaysian operation	24,825	—	—	—
Restructuring and impairments	—	—	48,244	14,483
Gain on sale of certain operations	—	—	(168,437)	—
Gain on sale of certain investments	—	—	—	(1,264)
Deferred income taxes	(4,680)	18,178	(35,189)	2,929
Changes in operating assets and liabilities:				
Trade receivables	(24,991)	(11,656)	68,801	(22,911)
Inventories	(5,668)	(16,850)	(4,133)	(11,440)
Prepaid expenses and other current assets	(7,737)	364	1,447	3,246
Trade payables and accrued liabilities	42,599	(1,636)	(43,666)	3,618
Income taxes	2,290	4,642	27,096	2,699
Other	20,898	(16,322)	1,199	4,158
Net cash provided by operating activities	111,139	62,674	28,675	101,400
INVESTING ACTIVITIES:				
Net change in short-term investments	—	—	(47,334)	(33,502)
Proceeds from sale of Malaysian operation	52,500	—	—	—
Proceeds from sale of certain operations	—	—	338,016	—
Proceeds from sale of certain investments	—	—	—	5,264
Cash paid for acquired businesses	—	(3,649)	—	(24,026)
Long-term investments	—	—	(13,000)	—
Property, plant and equipment	(38,813)	(27,523)	(40,632)	(52,992)
Net cash provided by (used in) investing activities	13,687	(31,172)	237,050	(105,256)
FINANCING ACTIVITIES				
Proceeds from offering	513,114	158,983	—	—
Proceeds from exercise of stock options	1,985	4,574	10,104	9,378
Payments of borrowings	(435,204)	(54,226)	(61,545)	—
Repurchase of treasury shares	—	—	(11,933)	(18,565)
Net cash provided by (used in) financing activities	79,895	109,331	(63,374)	(9,187)
Effect of exchange rates on cash and cash equivalents	(158)	(176)	(829)	1,690
Net increase (decrease) in cash and cash equivalents	204,563	140,657	201,522	(11,353)
Cash and cash equivalents at the beginning of the period	7,377	211,940	352,597	554,119
Cash and cash equivalents at the end of the period	$ 211,940	$352,597	$ 554,119	$ 542,766
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	$ 948
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	$ —	$ —	$ —
Common Stock and Options Issued in Merger with Elantec Semiconductor, Inc.	$ —	$ —	$ —	$1,180,358

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
Initial capitalization at August 14, 1999	$ 158	$509	$ 5,935	$ —	$ —	$ —	$ —	$ 6,602
Net (loss)	—	—	—	(42,708)	—	—	—	(42,708)
Shares issued in initial public offering	220	—	512,894	—	—	—	—	513,114
Shares issued under Stock Option Plan	2	—	4,120	—	—	—	—	4,122
Shares sold to certain executives and foreign employees	—	—	878	—	—	(878)	—	—
Write-off of unearned compensation	—	—	—	—	—	878	—	878
Shares issued for acquisition of No Wires Needed B.V.	30	—	111,318	—	—	—	—	111,348
Exchange of preferred stock	38	—	89,462	—	—	—	—	89,500
Repurchase of warehouse shares	—	(12)	(93)	—	—	—	—	(105)
Preferred dividends	—	—	(5,391)	—	—	—	—	(5,391)
Foreign currency translation	—	—	—	—	—	1,636	—	1,636
Balance at June 30, 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
Net loss	—	—	—	(4,970)	—	—	—	(4,970)
Shares issued under Stock Option Plan	13	—	5,481	—	—	—	—	5,494
Shares issued under Employee Stock Purchase Plan	3	—	4,904	—	—	—	—	4,907
Sterling Holding Co., LLC share exchange	85	(85)	—	—	—	—	—	—
Amortization of unearned compensation	—	—	—	—	15,302	—	—	15,302
Unrealized loss on available-for-sale securities	—	—	—	—	—	(3,367)	—	(3,367)
Foreign currency translation	—	—	—	—	—	614	—	614
Shares issued in merger with Elantec, Inc.	296	—	1,180,062	—	—	—	—	1,180,358
Options issued in merger with Elantec, Inc.	—	—	—	—	(34,350)	—	—	(34,350)
Shares retired	(13)	—	(26,863)	—	—	—	26,876	—
Shares repurchased	—	—	—	—	—	—	(18,565)	(18,565)
Balance at January 3, 2003	$1,290	$ 78	$2,228,925	$ (780)	$(20,104)	$(3,116)	$ (3,622)	$2,202,671

See Notes to Consolidated Financial Statements.

NOTE A — ORGANIZATION AND BASIS OF PRESENTATION

Organization

Intersil Corporation ("Intersil" or the "Company") is a leading designer and manufacturer of high performance analog integrated circuits and wireless networking solutions. Using proprietary technologies and superior design methodologies, Intersil designs, develops and delivers solutions primarily for five markets in the semiconductor industry — power management, optical storage, video displays, standard analog and wireless networking. Power management products are designed into desktop and notebook computers, file servers, workstations and a variety of portable computing devices. Optical storage products encompass CD and DVD recordable devices. Video products include silicon solutions for items such as flat panel displays, TFT-LCD displays, overhead displays, and set top converters. Standard analog products include switches, MUXes and interface devices for computing, communications, test and instrumentation, medical, industrial and other applications. Wireless networking products are used for Wireless LAN (WLAN) including a variety of 802.11 standards.

Basis of Presentation

Intersil was formed on August 13, 1999 through a series of transactions in which Intersil acquired the semiconductor business of Harris Corporation.

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.

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.

On May 14, 2002, the Company consummated the merger with Elantec Semiconductor, Inc. ("Elantec") by using Intersil Class A common stock and cash to purchase 100% of the outstanding common stock of the Milpitas, California-based company. The merger was accounted for using the purchase method of accounting and, accordingly, the results of operations of Elantec have been included in the accompanying Consolidated Financial Statements since the merger date.

The Company's 2002 fiscal year contains 53 weeks. Consequently, the third quarter of 2002 contained 14 weeks. This varies from the 13 weeks contained in a standard quarter.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Reclassifications

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

NOTE B — SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year

The combined year 2000 is comprised of the 46 weeks ended June 30, 2000, the stub year 2000 includes the 26 weeks ended December 29, 2000, the fiscal year 2001 includes the 52 weeks ended December 28, 2001, and the fiscal year 2002 includes the 53 weeks ended January 3, 2003.

Cash and Cash Equivalents

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

Short-Term Investments

Investments identified as short-term are income yielding securities that can be readily converted into cash having maturities of less than one year. Examples of short-term investments include commercial paper, corporate bonds, corporate notes and federal, state, county and municipal government bonds.

Trade Receivables

Trade receivables are recorded at net realizable value or the amount that we expect to collect on our gross customer trade receivables. The Company establishes a general reserve of approximately 1% of gross trade receivables in addition to a specific reserve for receivables with known collection problems due to circumstances such as liquidity or bankruptcy. Collection problems are identified using an aging of receivables analysis based on invoice due dates. Items that are deemed uncollectible are written off against the allowance for collection losses. Intersil does not charge interest on overdue receivables.

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 statements of operations.

Property, Plant and Equipment

Buildings, machinery and equipment are carried on the basis of cost, less impairment charges, if any. The estimated useful lives of buildings range between five and 50 years. The estimated useful lives of machinery and equipment range between three and 10 years. Depreciation is computed by the straight-line method using the estimated useful life of the asset. Depreciation expense was $52.3 million, $20.5 million, $28.1 million and $28.9 million for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, the 52 weeks ended December 28, 2001 and the 53 weeks ended January 3, 2003, respectively.

Investments in Available-For-Sale Securities

The Company accounts for its investments in debt and equity securities under Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity 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 sheets. Temporary gains and losses are classified as components of comprehensive income, while other-than-temporary-losses and permanent gains and losses are classified as components of net income (loss). Other-than-temporary-losses are recognized when either the quoted market price was less than the carrying value for two consecutive quarters or other qualitative indicators of impairment arise.

Advertising Expense

Advertising costs are expensed in the period incurred. Advertising expense was $11.1 million, $7.0 million, $10.9 million and $11.3 million for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, the 52 weeks ended December 28, 2001 and the 53 weeks ended January 3, 2003, respectively.

Revenue Recognition

Revenue is recognized from sales to all customers, except North American distributors, when a product is shipped. Sales to international distributors are made under agreements, which provide the international distributors price protection on and rights to periodically exchange a percentage of unsold inventory they hold. Accordingly, sales are reduced for estimated returns from international distributors and estimated future price reductions of unsold inventory held by international distributors. Product sales to two distributors for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, and the 52 weeks ended December 28, 2001 amounted to 15.7%, 33.9%, and 12.2%, respectively, of total product sales. Due to changes in our sales channel model, these distributors did not comprise a significant portion of the Company's 2002 revenue.

Effective March 30, 2002 the Company began to recognize revenue to North American distributors on a sell-through basis. As such, the Company now recognizes sales to North American distributors upon shipment to the end customer. Formerly, the Company recognized revenue from North American distributor sales upon shipment to the distributors. The combination of the changes resulting from the merger with Elantec, changes in the distributor mix and changes in market pricing affect the estimability of customer acceptance. The impact of this change resulted in a reduction in income before taxes and extraordinary item, net income, and diluted earnings per share of $10.1 million, $6.6 million and $0.05 (based on the shares outstanding at June 28, 2002 the quarter of adoption), respectively. This change did not have a material impact on the results of operations subsequent to the adoption as the recognition of previously deferred revenue offset the additional deferrals. Deferred gross profit on North American distributor sales at January 3, 2003 was $12.4 million.

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 to which both the Company and its employees contribute. Contributions by Intersil to the retirement plan are based on profits of the Company and a dollar for dollar match of employees' contributions up to a certain predetermined percentage. 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 pretax 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 $10.4 million for the 46 weeks ended June 30, 2000, $9.6 million for the 26 weeks ended December 29, 2000, $7.9 million for the 52 weeks ended December 28, 2001, and $8.6 million for the 53 weeks ended January 3, 2003.

Stock Options

The Company accounts for the 1999 Equity Compensation 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 Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation", the Company would have reported a net loss of $43.3 million for the 46 weeks ended June 30, 2000, net income of $4.2 million for the 26 weeks ended December 29, 2000, net income of $27.5 million for the 52 weeks ended December 28, 2001, and a net loss of $28.1 million for the 53 weeks ended January 3, 2003.

The following table reconciles net income (loss) as previously reported to the net income (loss) that would have been reported had compensation cost for the Company's stock option plan been determined consistent with SFAS 123:

(In millions, except per share information)	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
Net income (loss), as reported	$(42.7)	$ 7.0	$ 39.9	$ (5.0)
SFAS 123 impact	$ (0.6)	$(2.8)	$(12.4)	$ (23.1)
Adjusted net income (loss)	$(43.3)	$ 4.2	$ 27.5	$ (28.1)
Adjusted basic income (loss) per share	$ (0.64)	$ 0.04	$ 0.26	$ (0.22)
Adjusted diluted income (loss) per share	$ (0.64)	$ 0.04	$ 0.25	$ (0.22)
Basic income (loss) per share, as reported	$ (0.63)	$ 0.07	$ 0.38	$ (0.04)
Diluted income (loss) per share, as reported	$ (0.63)	$ 0.07	$ 0.37	$ (0.04)

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

	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
Expected volatility	0.5	0.877	1.002	0.818
Dividend yield	—	—	—	—
Risk-free interest rate	6.25%	5.47% – 6.20%	4.14% – 5.40%	4.80%
Expected life, in years	7	7	7	7

Income Taxes

Intersil follows the liability method of accounting for income taxes as set forth in Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "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 impairments under Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." Consistent with prior guidance, SFAS 144 requires a three-step approach for recognizing and measuring the impairment of assets to be held and used. 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. Assets to be sold are stated at the lower of the assets carrying amount or fair value and depreciation is no longer recognized. Prior to SFAS 144's adoption on December 29, 2001, Intersil accounted for impairments under Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

Intangibles

In June 2001 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets", which the company adopted on December 29, 2001. Under these new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests. Other intangible assets will continue to be amortized over their estimated useful lives. In conjunction with the adoption of SFAS 142, the Company completed an initial impairment review of its goodwill and intangible assets deemed to have indefinite lives as of December 29, 2001 and found no impairment. Beginning in 2002 the Company performs an annual impairment review during the fourth quarter of each year or more frequently if the Company believes indicators of impairment exist.

As required by SFAS 142, the Company ceased amortizing goodwill and other indefinite lived intangible assets of $177.0 million beginning December 29, 2001. Included in this amount is $4.5 million of assembled workforce. Any additional goodwill recorded as a result of future purchase transactions will not be amortized but will be subject to the annual impairment tests set forth in SFAS 142.

The following table presents the impact of SFAS 142 on income (loss) before extraordinary item and cumulative effect of a change in accounting principle, net income (loss), and net income (loss) per share had no amortization been recorded for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000 and the 52 weeks ended December 28, 2001, respectively (in millions):

	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle — adjusted	$(14.1)	$ 24.3	$ 85.2
Net income (loss) — as reported	$(42.7)	$ 7.0	$ 39.9
SFAS 142 adjustments	3.1	11.2	33.1
SFAS 142 tax effect	(1.1)	(3.4)	(9.9)
Net income (loss) — adjusted	$(40.7)	$ 14.8	$ 63.1
Adjusted basic earnings per share	$ (0.60)	$ 0.15	$ 0.60
Adjusted diluted earnings per share	$ (0.60)	$ 0.14	$ 0.58

Forward and Option 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. Premiums paid for option contracts that are not exercised are written off at the time of expiration. Gains and losses on foreign exchange contracts are included within cost of product sales within the statements of operations.

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. Aggregate cumulative translation losses were $(2.0) million and $(1.4) million at December 28, 2001 and January 3, 2003, respectively.

Income (Loss) Per Share

Income (loss) per share is computed and presented in accordance with Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings per Share" and the Securities and Exchange Commission Staff Accounting Bulletin No. 98.

Use of Estimates

The 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.

NOTE C — INVENTORIES

Inventories are summarized below (in thousands):

	December 28, 2001	January 3, 2003
Finished products	$ 24,666	$ 26,090
Work in process	69,758	80,897
Raw materials and supplies	3,090	3,841
	97,514	110,828
Less inventory reserves	(29,626)	(24,861)
	$ 67,888	$ 85,967

At December 28, 2001 and January 3, 2003 Intersil was committed to purchase $8.4 million and $23.3 million, respectively, of inventory from suppliers.

NOTE D — PROPERTY, PLANT AND EQUIPMENT

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

	December 28, 2001	January 3, 2003
Land	$ 2,584	$ 2,024
Buildings	51,585	49,154
Machinery and equipment	148,950	196,350
	203,119	247,528
Less allowances for depreciation	(63,051)	(86,153)
	$140,068	$161,375

NOTE E — INTANGIBLES

Intangibles are summarized below (in thousands):

	December 28, 2001	January 3, 2003
Indefinite Lived Intangible Assets:		
Goodwill	$216,873	$1,277,130
Less accumulated amortization	(44,407)	(44,407)
Assembled Workforce	8,593	8,593
Less accumulated amortization	(4,066)	(4,066)
Definite Lived Intangible Assets:		
Developed Technology	66,118	78,519
Less accumulated amortization	(12,492)	(19,588)
Customer Base	15,314	15,314
Less accumulated amortization	(4,855)	(7,087)
Total Intangibles	$241,078	$1,304,408

Definite lived intangible assets are amortized over their useful lives, which are nine to 11 years for developed technology and seven years for customer base. Amortization expense on intangible assets was $9.0, $14.8, $41.4 and $9.3 million for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, the 52 weeks ended December 28, 2001 and the 53 weeks ended January 3, 2003, respectively. Expected amortization expense for each of the next five years are the following: 2003 — $9.6 million, 2004 — $9.6 million, 2005 — $9.6 million, 2006 — $8.9 million and 2007 — $7.5 million. Amortization on the consolidated statements of operations includes additional amortization for unearned compensation. Unearned compensation is contained within the shareholders' equity portion of the consolidated balance sheets. Amortization of unearned compensation was $0.5 million, $2.8 million and $15.3 million for the 26 weeks ended December 29, 2000, the 52 weeks ended December 28, 2001 and the 53 weeks ended January 3, 2003, respectively. We recorded no amortization on unearned compensation in the 46 weeks ended June 30, 2000. Expected amortization of the unearned compensation for each of the next four years are the following: 2003 — $12.3 million, 2004 — $4.9 million, 2005 — $2.3 million, 2006 — $0.7 million and 2007 — $0.0 million.

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):

	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
Numerator:				
Net income (loss) to common shareholders	$(48,099)	$ 7,009	$ 39,889	$ (4,970)
Denominator:				
Denominator for basic earnings per share — weighted average common shares	76,745	101,014	105,740	125,591
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	125,591
Basic income (loss) per share	$ (0.63)	$ 0.07	$ 0.38	$ (0.04)
Diluted income (loss) per share	$ (0.63)	$ 0.07	$ 0.37	$ (0.04)

The effect of 6,488 and 3,510 dilutive securities is not included in the computations for the 46 weeks ended June 30, 2000 and the 53 weeks ended January 3, 2003, respectively, because to do so would be antidilutive.

NOTE G — AVAILABLE-FOR-SALE SECURITIES AND LOSS ON INVESTMENTS

Available-for-sale securities consist of shares of ChipPAC, Inc. (“ChipPAC”) common stock that have been classified as investments on the balance sheets. They are recorded at fair value, which is determined based on quoted market prices. Due to changes in the market prices, an unrealized holding loss in the amount of $5.7 million ($3.4 million net of tax benefit) has been charged to other comprehensive loss for the 53 weeks ended January 3, 2003, while an unrealized holding gain of $4.0 million ($1.7 million after tax) was included in other comprehensive income for the 52 weeks ended December 28, 2001. The carrying value of these securities was $9.2 million and $5.9 million as of December 28, 2001 and January 3, 2003, respectively. The cumulative amount of unrealized holding gains (losses) contained within the other comprehensive income (loss) portion of the equity section was $1.7 million and ($1.7) million at December 28, 2001 and January 3, 2003, respectively.

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 52 weeks 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.

During the 53 weeks ended January 3, 2003, the Company recorded an impairment charge of $3.0 million ($2.0 million after tax) related to an investment contained within the other long-term asset section of the balance sheet. As the Company holds less than a 20% equity ownership with no indicators of influence in the investee and the shares are not readily traded on a major stock exchange, this investment was held at cost. The impairment reflects the excess of the investment’s carrying value over the estimated undiscounted cash flows resulting from the eventual disposal of the securities.

Also, during the 53 weeks ended January 3, 2003, the Company recorded a gain of $1.3 million ($0.8 million after tax) from the sale of its investment in PowerSmart, Inc. The gain was calculated as the excess of the proceeds from disposition of the investment over its carrying value.

NOTE H — MERGER WITH ELANTEC

On May 14, 2002, following receipt of approval of the shareholders of Intersil and Elantec, Intersil consummated the merger with Elantec by using Intersil Class A common stock, options to purchase common stock and cash to purchase 100% of the outstanding common stock of the Milpitas, California-based company. Elantec designed, manufactured and marketed high performance analog solutions to manufacturers in the markets for video, optical storage, communications and power management products. Intersil entered into this merger to expand into additional high growth analog markets. Intersil and Elantec also shared a significant number of customers and had complementary product portfolios. The merger was accounted for using the purchase method of accounting and, accordingly, the results of operations of Elantec have been included in the accompanying Consolidated Financial Statements since the merger date. Consideration for the merger with Elantec consisted of cash, common stock and options to purchase common stock.

Pursuant to the merger, each outstanding share of Elantec common stock was converted into 1.24 shares of Intersil Class A common stock and $8.00 cash, without interest. The source of funds for the cash portion of the purchase price was working capital. Under the terms of the merger agreement, Intersil issued 29,587,331 shares of its Class A common stock for 100% of Elantec’s outstanding common stock. The estimated value of Intersil’s Class A common stock was $32.42 per share based on the average closing price of Intersil’s Class A common stock for the five-day period including March 11, 2002 (the first trading day following the announcement of the signing of the merger agreement) and the two trading days preceding and succeeding such date.

The Company also reserved 8,969,763 shares of its Class A common stock in exchange for Elantec’s outstanding stock options. Each outstanding option to purchase shares of Elantec common stock was converted into an option to purchase shares of the Company’s Class A common stock using an exchange ratio of 1.54, which is equal to 1.24 plus the quotient of $8.00 divided by the closing sales price of Intersil Class A common stock as reported on the Nasdaq National Market on the trading day immediately preceding the date of the merger of $26.60. The Company estimated the fair value of each option as of the merger date using the Black-Scholes pricing model.

As a result of the merger, the Company incurred transaction related fees of $20.9 million. The Company also incurred costs of $7.1 million relating to efforts undertaken to exit certain activities deployed by Elantec (see Note I). Finally, $34.3 million of the purchase price was allocated to future periods in the form of unearned compensation, which resulted from the intrinsic value of the aforementioned options. The intrinsic value of each option was calculated as the excess of the fair market value of one share of Intersil Class A common stock as determined using the average closing sales price of Intersil Class A common stock on May 13, 2002 and May 14, 2002 of $28.41 over the option price. The unearned compensation costs will be recognized over the remaining vesting period of the options as expense in arriving at operating income (loss). The table below summarizes the components of the purchase price (in millions):

Common stock issued	$ 959.2
Value of options issued	221.1
Cash paid	190.9
Transaction costs incurred	20.9
Exit costs incurred	7.1
Unearned compensation	(34.3)
Total purchase price	$1,364.9

An independent valuation specialist performed an allocation of the total purchase price of Elantec to certain of its individual assets and liabilities. In-process research and development projects, tangible assets and specific intangible assets were identified and valued. The residual purchase price of $1,060.3 million has been recorded as goodwill. In accordance with SFAS 142, goodwill will be carried at cost and tested for impairment annually and whenever events indicate that impairment may have occurred. Goodwill is not amortized under SFAS 142. The purchase price allocation, which is subject to change based on actual costs incurred, is as follows (in millions):

Tangible current assets	$ 232.1
Tangible long-term assets	17.4
Tangible liabilities	(9.6)
Developed technology	12.4
Acquired in-process research and development	53.8
Goodwill	1,060.3
Deferred tax liability	(4.7)
Tax benefit from exercise of vested options	3.2
Total purchase price	$1,364.9

The appraisal of the acquired Elantec business included $53.8 million of purchased in-process research and development, which was related to various products under development. The 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 intangible balance, which consists of developed technology, will be amortized over its estimated useful life of nine years. Additionally, the total amount of goodwill recorded as part of the original purchase accounting was reduced by approximately $3.2 million dollars for the income tax benefit recognized upon the exercise of Intersil options issued to holders of vested Elantec options on the date of the merger.

The following unaudited pro forma consolidated results of operations are presented as if the Elantec merger occurred on December 30, 2000 and December 29, 2001, respectively, (in millions, except per share data):

	(unaudited) 52 Weeks Ended December 28, 2001	(unaudited) 53 Weeks Ended January 3, 2003
Product sales	$575.9	$691.5
Net loss before extraordinary item	$ (27.3)	$ (8.6)
Net loss	$ (39.5)	$ (8.6)
Net loss per basic share	$ (0.29)	$ (0.07)

The pro forma results of operations include adjustments to give effect to additional amortization related to the increased value of acquired identified intangibles. Included in the pro forma results above are certain non-recurring events. These events include the write-off of in-process research and development costs ($53.8 million), which is included in the 52 weeks ended December 28, 2001 and the 53 weeks ended January 3, 2003. One time costs during the 52 weeks ended December 28, 2001 include the impairment of long-lived assets ($7.6 million), the impairment of marketable securities ($8.2 million), restructuring costs ($54.2 million) and a gain from the sale of certain operations ($168.4 million). Included in the 53 weeks ended January 3, 2003 are the impairment of long-lived assets ($6.2 million) and restructuring costs ($7.7 million). The unaudited pro forma information is not necessarily indicative of the results 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 I — RESTRUCTURING COSTS RELATED TO THE EXIT OF ELANTEC'S ACTIVITIES

Included in the purchase price of the Elantec merger (see Note H) are $7.1 million in accrued costs arising out of the Company's plan to exit certain activities deployed by Elantec. In accordance with Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," these costs were considered in the purchase price allocation of the Elantec merger. The restructuring plan includes termination benefits and other costs incurred in the Company's exit of Elantec's fabrication facility in Milpitas, California and the elimination of certain Elantec sales and marketing activities. The restructuring plan was formalized in May 2002, and is currently funded from working capital as intended by the plan. As a result of the merger, 106 Elantec employees were notified that their employment would be terminated and of the specifics of their severance benefits. As of January 3, 2003 approximately 35% of the affected employees had been terminated. The remaining employees will be terminated over the next six months. The affected sales offices and fabrication facility will be closed within the next six months.

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. During fiscal year 2003, the Company estimates the cost savings of the restructuring plan to be approximately $15 to $18 million. A summary of the restructuring costs and the remaining accrual follows:

(In millions)	Additions	Utilization	Balance January 3, 2003
Employee termination costs	$3.6	$(0.9)	$2.7
Milpitas plant closure costs	2.4	(0.1)	2.3
Sales office closure costs	1.1	(0.1)	1.0
Total restructuring costs	$7.1	$(1.1)	$6.0

NOTE J — 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 to 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 five in Asia. As of January 3, 2003, all of the affected employees have been terminated.

Other exit costs included information technology costs required to cover transferred software license fees and system modifications necessary to support the business transition activity. Intersil wrote off $14.8 million of intangible assets as well as other miscellaneous assets attributable to the Discrete Power products group. Intersil also closed three foreign sales offices as a result of the sale.

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 no less favorable than those that could be obtained from non-affiliated parties.

NOTE K — RESTRUCTURING AND OTHER NON-RECURRING CHARGES

As part of the merger with Elantec, the Company accrued for restructuring activities relating to the consolidation of the combined entity's business operations. These costs were not included in the purchase price determination and the allocation therein. The restructuring plans included the costs associated with the reduction in workforce and the exit of duplicate sales office operations of the Company that existed prior to the merger. As a result of the restructuring, the Company recorded a charge of $5.3 million ($3.4 million after tax) during the 53 weeks ended January 3, 2003.

In March 2001, the Board of Directors approved and the Company announced several major restructuring activities to improve ongoing 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) during the 52 weeks ended December 28, 2001.

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)	Balance December 28, 2001	Additions	Utilizations	Balance January 3, 2003
Employee termination costs				
Findlay plant closure	$13.6	$ —	$ (9.4)	$4.2
Sales force reduction	—	3.5	(2.5)	1.0
	13.6	3.5	(11.9)	5.2
Other exit costs				
Findlay facility decommission costs	4.1	—	(3.8)	0.3
SiCOM asset removal and related costs	—	0.6	(0.1)	0.5
SiCOM contract cancellation costs	0.2	—	(0.2)	—
Sales channel consolidation costs	—	1.2	(0.6)	0.6
	4.3	1.8	(4.7)	1.4
Total restructuring costs	$17.9	$5.3	$(16.6)	$6.6

Employee Termination Costs

As a result of the merger with Elantec, 24 Intersil employees were notified that their employment would be terminated and of the specifics of their severance benefits. These positions included primarily selling employees, of whom 13 were located in the United States, seven in Europe and four in Asia. As of January 3, 2003, approximately 80% of the affected employees had been terminated. The remaining employees will be terminated over the next three months.

In connection with the March 2001 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, general and administrative employees with 521 of the employees being located in the United States and 13 in Europe. The sale of the Findlay, Ohio manufacturing operation was completed late in September 2002, and accordingly all of the affected employees had been terminated as of January 3, 2003.

Other Exit Costs

Other exit costs include costs to decommission (removal of semiconductor specific equipment and leasehold improvements) the Findlay site to a marketable condition. During the 52 weeks ended December 28, 2001, 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 terminated some existing contracts in connection with the planned exit of the modem board assembly manufacturing process and recognized the associated termination costs as part of this restructuring.

In connection with the 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 during the 52 weeks ended December 28, 2001. 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 Company recorded an additional impairment of these assets in the 53 weeks ended January 3, 2003 (Note L).

Other exit costs arising out of the merger with Elantec include costs to be incurred while consolidating sales channels. These costs are comprised of lease termination charges relating to the closure of various sales offices as well as liabilities assumed in connection with the termination of certain sales representative relationships.

NOTE L — IMPAIRMENT OF LONG-LIVED ASSETS

During the 53 weeks ended January 3, 2003 the Company recorded an impairment on various long-lived assets of $6.2 million ($4.0 million after tax). The majority of this impairment was related to closure of the Findlay, Ohio manufacturing operation. The Company wrote these assets down by $3.6 million ($2.3 million net of tax) to their fair value based on the contractual sales price. Prior to this impairment, the carrying value of the Findlay assets was $5.2 million. The remaining impairment is primarily related to the adjustment of idle equipment to their fair value based on estimated future cash flows from these assets.

NOTE M — 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 December 28, 2001 or January 3, 2003.

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 N — LEASE COMMITMENTS

Total rental expense amounted to $5.0 million for the 46 weeks ended June 30, 2000, $3.7 million for the 26 weeks ended December 29, 2000, $9.9 million for the 52 weeks ended December 28, 2001, and $8.0 million for the 53 weeks ended January 3, 2003. Future minimum rental commitments under non-cancelable operating leases primarily related to land and office buildings amounted to approximately $12.7 million at January 3, 2003. These commitments for the years following 2002 (which exclude the estimated rental expense for annually renewable contracts) are: 2003 — $4.1 million, 2004 — $2.9 million, 2005 — $1.9 million, 2006 — $0.4 million, 2007 — $0.4 million and $3.0 million thereafter.

NOTE O — 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 January 3, 2003, 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 its 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 Need 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 January 3, 2003, 199,500 warrants had been exercised for 3,694,432 shares of Intersil Class A Common Stock and 500 warrants to purchase 9,275 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. In March 2002, Sterling converted 8,495,756 shares of its holdings in Intersil Class B common stock into an equivalent number of shares of Intersil Class A common stock. At January 3, 2003, Sterling still held 7,786,719 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. During the 53 weeks ended January 3, 2003, the Company repurchased 1,002,500 shares of its Class A common stock at an approximate cost of $18.6 million under its stock repurchase program. During the 53 weeks ended January 3, 2003, the Company retired 1,275,500 shares of its Class A common stock which were formerly held as treasury stock. The total dollar value of the treasury stock retired during the 53 weeks ended January 3, 2003 was $26.9 million. As of December 28, 2001 and January 3, 2003, respectively, 498,000 and 225,000 shares at an approximate cost of $11.9 million and $3.6 million had been repurchased and were held as treasury stock. The following table summarizes the treasury share activity enumerated above (in millions and at cost):

Treasury shares as of December 28, 2001	$ 11.9
Treasury shares repurchased during the 53 weeks ended January 3, 2003	18.6
Treasury shares retired during the 53 weeks ended January 3, 2003	(26.9)
Treasury shares as of January 3, 2003	$ 3.6

On May 14, 2002 the Company issued 29,587,331 shares of its Class A common stock in exchange for all outstanding shares of Elantec common stock (see Note H).

NOTE P — INCOME TAXES

The provision (benefit) for income taxes is summarized below (in thousands):

	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
Current taxes:				
Federal	$ —	$ 4,484	$ 81,672	$ 578
State	—	166	6,465	899
Foreign	4,391	4,155	1,909	9,120
	4,391	8,805	90,046	10,597
Deferred taxes:				
Federal	(4,198)	16,565	(32,199)	8,016
State	(482)	1,613	(2,990)	301
	(4,680)	18,178	(35,189)	$ 8,317
Income tax expense (benefit)	$ (289)	$26,983	$ 54,857	$18,914

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, $4.0 million and $0.9 million for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, the 52 weeks ended December 28, 2001, and the 53 weeks ended January 3, 2003, 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 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
Income tax expense (benefit) from operations	$(289)	$30,759	$62,405	$18,914
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	$18,914

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 X — Extraordinary Items and the adoption of Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," as discussed in Note T — 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 SFAS 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 SFAS 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.

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

	December 28, 2001		January 3, 2003	
	Current	Non-Current	Current	Non-Current
Receivables	$ 410	$ —	$ 515	$ —
Inventory	7,111	—	5,305	—
Fixed Assets	—	(6,285)	—	(234)
Intangibles	—	(3,639)	—	(8,037)
Accrued Expenses	26,286	—	26,373	753
NOL Carryforward	—	2,865	—	11,296
Tax Credits	—	—	—	10,082
All other — net	—	565	2,074	1,787
	$33,807	$(6,494)	$34,267	$15,647

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

	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
Statutory U.S. income tax rate	35.0%	35.0%	35.0%	35.0%
State taxes	1.1	5.2	3.2	6.5
International income	—	3.3	2.8	(5.1)
Tax benefit related to export sales	—	(1.3)	(0.3)	(5.2)
Research credits	0.8	(4.4)	(2.2)	(35.0)
In-process research and development	(16.5)	26.2	—	136.2
Goodwill amortization	(1.2)	11.6	16.6	6.2
Effect of sales of Malaysian operations	(18.0)	—	—	—
Other items	(0.5)	3.8	2.8	(2.9)
Effective income tax rate	0.7%	79.4%	57.9%	135.7%

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

Pretax income (loss) of international subsidiaries was $21.6 million for the 46 weeks ended June 30, 2000, $0.4 million for the 26 weeks ended December 29, 2000, $4.4 million for the 52 weeks ended December 28, 2001, and $28.0 million for the 53 weeks ended January 3, 2003.

Income taxes paid were $0.6 million for the 46 weeks ended June 30, 2000, $4.0 million for the 26 weeks ended December 29, 2000, $61.7 million for the 52 weeks ended December 28, 2001, and $12.4 million for the 53 weeks ended January 3, 2003.

For tax purposes, the Company had federal and state net operating loss carryforwards of approximately $25.9 million as of January 3, 2003. These net operating loss carryforwards begin to expire for federal and state purposes in 2019 and 2004, respectively. Additionally, the Company has foreign net operating loss carryforwards of approximately $2.1 million as of January 3, 2003.

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.

The Company recorded a valuation allowance in 2001 of approximately $2.2 million related to certain foreign net operating loss carryforwards. The net change in total valuation allowance for the 53 weeks ended January 3, 2003 was $(2.2) million and relates to utilization of certain foreign net operating losses in 2002 and the Company's expectations regarding utilization of the remaining net operating loss carryforwards.

NOTE Q — 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):

	46 Weeks Ended June 30, 2000	26 Weeks Ended December 29, 2000	52 Weeks Ended December 28, 2001	53 Weeks Ended January 3, 2003
United States Operations				
Net sales	$389,741	$303,242	$161,122	$ 167,289
Long-lived assets	333,668	485,357	343,559	1,426,115
International				
Net sales	21,982	27,653	319,944	482,429
Long-lived assets	112,487	103,312	89,226	95,161

Export sales included in U.S. operations were $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. There were no export sales included in US operations in the 53 weeks ended January 3, 2003.

NOTE R — FINANCIAL INSTRUMENTS

At December 28, 2001 and January 3, 2003, the Company's financial instruments included cash and cash equivalents, investments, receivables, accounts payable, and forward foreign currency exchange contracts. The carrying values of cash and cash equivalents, short-term investments, receivables, and accounts payable 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 mainly of less than 20% equity interests in companies. Accordingly, the investments are accounted for using the cost method, which approximates fair value, and are classified as other assets. The carrying values of these investments were $39.2 million and $32.5 million at December 28, 2001 and January 3, 2003, respectively. Included in these amounts is the investment in ChipPAC common stock, which is classified as available-for-sale and recorded at fair value as determined by quoted market prices (see Note G). 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.

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 January 3, 2003 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 that 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 January 3, 2003, the Company did not require and was not required to collateralize any of its financial instrument obligations.

Interest paid in the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, the 52 weeks ended December 28, 2001, and the 53 weeks ended January 3, 2003 was $0.1 million, $1.4 million, $4.4 million and $0.8 million, respectively.

The Company's trade receivables and investments do not represent a significant concentration of credit risk at January 3, 2003, 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 $3.4 million and $3.7 million at December 28, 2001, and January 3, 2003, 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 (losses) on foreign exchange contracts were $3.2 million, $1.9 million, $0.9 million and ($1.0) million for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, the 52 weeks ended December 28, 2001 and the 53 weeks ended January 3, 2003, respectively. Realized gains and losses from hedges are classified in the statements of operations consistent with the accounting treatment of the items being hedged. Open foreign exchange contracts were $9.6 million and $17.8 million at December 28, 2001 and January 3, 2003, respectively, all of which were used to hedge anticipated foreign cash flow commitments. Intersil purchased and sold $25.8 million and $93.9 million of foreign exchange forward and put option contracts for the 52 weeks ended December 28, 2001 and the 53 weeks ended January 3, 2003, respectively.

Total open foreign exchange contracts and options at December 28, 2001 and January 3, 2003 are described in the following table:

December 28, 2001

Commitments to Sell Foreign Currencies

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

January 3, 2003

Options to Sell Foreign Currencies

Currency (in thousands)	Contract Amount: Foreign Currency	Contract Amount: U.S.	Maturities (In months)
Euro	6,500	$6,274	1 – 6
Japanese Yen	900,000	7,344	1 – 6

Commitments to Sell Foreign Currencies

Currency (in thousands)	Contract Amount: Foreign Currency	Contract Amount: U.S.	Maturities (In months)
Japanese Yen	506,872	$4,182	1 – 2

NOTE S — 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 originally authorized the grant of options for up to 7.5 million shares of Intersil Class A common stock 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 number of shares authorized for the Plan was increased to 17.5 million shares by the shareholders at the Annual Meeting of Shareholders held May 15, 2001.

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.

A summary of the status of the Company's stock option plan is presented in the table below:

	46 Weeks Ended June 30, 2000		26 Weeks Ended December 29, 2000		52 Weeks Ended December 28, 2001		53 Weeks Ended January 3, 2003	
	Shares (In thousands)	Weighted Average Exercise Price	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	—	$ 0.00	2,955	$15.76	4,136	$25.72	5,623	$26.50
Granted	3,177	15.41	1,325	48.12	2,345	24.83	15,519	19.14
Exercised	(194)	10.21	(66)	2.25	(316)	10.52	(905)	6.36
Canceled	(28)	15.20	(78)	25.56	(542)	25.26	(893)	23.07
Outstanding at end of period	2,955	$15.76	4,136	$25.72	5,623	$26.50	19,344	$21.56
Exercisable at end of period	191	$ 2.89	162	$ 3.01	822	$28.29	7,596	$18.56
Weighted average fair value of options granted		$ 5.07		$24.16		$20.59		$21.50

Information with respect to stock options outstanding and stock options exercisable is presented in the table below:

	Number Outstanding (In thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable (In thousands)	Weighted Average Exercise Price
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
January 3, 2003					
$ 1.10 – $ 1.67	1,137	5.47	$ 1.31	1,117	$ 1.31
$ 1.71 – $ 2.41	1,683	6.40	$ 2.16	1,196	$ 2.13
$ 2.86 – $ 4.30	40	6.06	$ 3.38	27	$ 3.33
$ 4.41 – $ 6.39	278	6.45	$ 5.27	218	$ 5.27
$ 6.89 – $10.37	933	7.01	$ 9.08	720	$ 9.13
$12.86 – $18.38	3,544	9.40	$15.15	472	$15.77
$19.50 – $26.12	4,595	8.48	$22.67	1,306	$22.85
$26.29 – $35.88	4,645	8.82	$29.42	1,206	$28.85
$37.07 – $55.13	2,457	7.61	$42.83	1,321	$42.52
$57.31 – $79.01	32	7.64	$62.59	15	$63.22

Employee Stock Purchase Plan

In February 2000, Intersil adopted the Employee Stock Purchase Plan ("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, December 28, 2001 and January 3, 2003, approximately 169,000, 462,000 and 783,000 shares had been issued under the ESPP, respectively.

NOTE T — ADOPTION OF FINANCIAL ACCOUNTING STANDARD NO. 133

Effective July 1, 2000, the Company adopted SFAS 133, 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 SFAS 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 U — RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." The provisions of SFAS 143 require companies to record an asset and related liability for the costs associated with the retirement of a long-lived tangible asset if a legal liability to retire the asset exists. This standard is effective for fiscal years beginning after June 15, 2002. The Company does not believe this statement will have a significant impact on its financial statements.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 (SFAS 145), "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 will generally require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS 4. Extraordinary treatment will be required for certain extinguishments as provided in APB Opinion No. 30. The statement also amended SFAS 13 for certain sales-leaseback transactions and sublease accounting. The Company is required to adopt the provisions of SFAS 145 effective January 4, 2003. The Company does not expect the adoption of SFAS 145 to have a significant impact on its financial position and results of operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 (SFAS 146), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when a liability is incurred rather than when an exit or disposal plan is approved. The Company is required to adopt the provisions of SFAS 146 for any exit or disposal activities initiated after December 31, 2002. The effect of adoption of SFAS 146 will be a change on a prospective basis of the timing of when restructuring charges are recorded from a commitment date approach to when a liability is recorded.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of this interpretation are effective for interim and annual periods after December 15, 2002. The initial recognition and initial measurement requirements of this interpretation are effective prospectively for guarantees issued or modified after December 31, 2002. The interpretation's expanded disclosures will not have a material impact on the Company's financial position or results of operations. The Company is assessing, but at this point does not believe the adoption of the recognition and initial measurement requirements of this interpretation will have a material impact on its financial position or results of operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123." SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS 148 are effective for financial statements issued for fiscal years ending after December 15, 2002, and is included in Note S. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company has not completed its assessment as to whether the adoption of this statement will have a material impact on the financial position or results of operations.

In January 2003, the FAS issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities." This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities. Under current practice, two enterprises generally have been included in consolidated financial statements because one enterprise controls the other through voting interests. This interpretation defines the concept of "variable interests" and requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks among the parties involved. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when this interpretation becomes effective, the enterprise shall disclose information about those entities in all financial statements issued after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. Based on the recent release of this interpretation, the Company has not completed the assessment as to whether or not the adoption of this interpretation will have a material impact on its financial position or results of operations.

NOTE V — 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. This goodwill was amortized on a straight-line basis over its useful life of seven years until the adoption of SFAS 142 on December 29, 2001.

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 Weeks 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. Two of the remaining intangibles (assembled workforce and goodwill) were being amortized over their useful lives, ranging from five to seven years, until the adoption of SFAS 142. The final intangible (developed technology) is being amortized over its useful life of 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 Weeks Ended June 30, 2000	26 Weeks 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 W — 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, 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 X — EXTRAORDINARY ITEMS

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 (see Note O). From the proceeds of the initial public offering, the Company paid off approximately $419.0 million of outstanding debt. In connection with the early extinguishment of debt, the Company recorded extraordinary charges (net of tax) of $25.5 million during the 46 weeks ended June 30, 2000. During the 26 weeks ended December 29, 2000, the Company paid off approximately $51.0 million of outstanding debt. 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 debt. 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 during the 52 weeks ended December 28, 2001.

NOTE Y — 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 Weeks Ended December 31, 1999 (unaudited)	26 Weeks Ended December 29, 2000
Net sales	$292.1	$435.5
Gross profit	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 FAS 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 Z — RELATED PARTY TRANSACTIONS

Intersil holds two receivable balances within other assets in the balance sheet resulting from loans made to two employees who are neither the CFO or CEO. The loans, which total $1.0 million at January 3, 2003, were made by Elantec prior to the merger as part of employment offers. The loans are recourse loans, and the security is in the form of second trust deeds on each employees' real property. Each loan earns interest in excess of the Prime Rate. The two loans are due on June 22, 2006 and April 18, 2007.

NOTE AA — 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 30, 2001	June 29, 2001	September 28, 2001	December 28, 2001	March 29, 2002	June 28, 2002	October 4, 2002	January 3, 2003
Net sales	$127.8	$118.3	$113.4	$121.6	$134.1	$144.3	$191.3	$180.0
Gross margin	42.2	59.5	57.6	63.2	71.1	75.3	103.2	94.9
Income (loss) before extraordinary item[a]	50.6	1.2	(3.3)	3.5	13.8	(18.3)	3.6	(4.1)
Extraordinary item[b]	(12.2)	—	—	—	—	—	—	—
Net income (loss)	$ 38.4	$ 1.2	$ (3.3)	$ 3.5	$ 13.8	$ (18.3)	$ 3.6	$ (4.1)
Per share (basic):								
Income (loss) before extraordinary item	$ 0.48	$ 0.01	$ (0.03)	$ 0.03	$ 0.13	$ (0.15)	$ 0.03	$ (0.03)
Extraordinary item	(0.12)	—	—	—	—	—	—	—
Net income (loss)	$ 0.36	$ 0.01	$ (0.03)	$ 0.03	$ 0.13	$ (0.15)	$ 0.03	$ (0.03)
Per share (diluted):								
Income (loss) before extraordinary item	$ 0.46	$ 0.01	$ (0.03)	$ 0.03	$ 0.13	$ (0.15)	$ 0.03	$ (0.03)
Extraordinary item	(0.11)	—	—	—	—	—	—	—
Net income (loss)	$ 0.35	$ 0.01	$ (0.03)	$ 0.03	$ 0.13	$ (0.15)	$ 0.03	$ (0.03)

[a] 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. During the quarter ended June 28, 2002 the Company recorded charges of $53.8 million, $5.3 million, $6.2 million and $1.7 million in relation to its write-off of in-process research and development, restructuring activities, impairment of long-lived assets and loss on investments. Also, the Company acquired Elantec during the quarter ended June 28, 2002. During the quarter ended January 3, 2003, the Company recorded a one time charge related to the settlement of the lawsuit with Proxim.

[b] During the quarter ended March 30, 2001 the Company recognized an extraordinary loss (net of tax) of $12.2 million related to the early extinguishment of debt.

NOTE AB — SUBSEQUENT EVENTS (UNAUDITED)

On January 28, 2003, the Company announced a restructuring plan designed to streamline the workforce and reduce costs. This restructuring initiative was accounted for under the provisions of SFAS 146, as described in Note U. The total cost of the plan will be approximately $1.7 million, which represents severance payments and outplacement related services. In accordance with SFAS 146, the severance related liability was recognized at the time the plan was communicated to employees as no service was required to obtain the benefits, while the liability related to the outplacement services is to be recognized upon receipt of the services. The plan affects 88 employees, 84 of which are located in the United States with the remainder in Europe.

Additionally, in the first quarter of 2003, the Company expects to release approximately $1.6 million of exit cost reserves which are located in the short term liability section of the balance sheet at January 3, 2003. These reserves were established in relation to the sale of the Discrete Power product group.

NOTE AC — LITIGATION SETTLEMENT

On March 17, 2003, the Company announced the settlement of the litigation arising from the alleged infringement with Proxim. The terms of the confidential settlement require Intersil to make a one time cash payment and provide a rebate on the future sale of certain wireless products to Proxim. In accordance with Statement of Financial Accounting Standard No. 5, "Accounting for Contingencies," the Company recorded the amounts related to the settlement as an expense in cost of product sales in the fourth quarter of 2002. The liability is reflected in the other accrued items at January 3, 2003.

COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Class A Common Stock of Intersil Corporation has been traded on the Nasdaq Stock Market's National Market since February 25, 2000 under the symbol "ISIL." There is currently no public market for our Class B Common Stock. As of March 1, 2002, there were about 16,000 record holders of our Class A Common Stock. The last reported sale price on March 1, 2002 for our Class A Common Stock was $29.90 per share.

High and low quotations, as reported, were:

Quarter Ended	High	Low
March 30, 2001	$33.38	$13.88
June 29, 2001	$40.51	$15.00
September 28, 2001	$42.36	$21.65
December 28, 2001	$40.02	$25.49
March 29, 2002	$37.21	$25.81
June 28, 2002	$31.43	$19.00
October 4, 2002	$22.59	$11.77
January 3, 2003	$19.86	$11.25

The Company has never paid a cash dividend. Any determination to declare and pay dividends will be made by our Board of Directors in light of our earnings, financial position, capital requirements and such other factors as the Board of Directors deems relevant.

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS' REPORT

THE BOARD OF DIRECTORS
Intersil Corporation

We have audited the accompanying consolidated balance sheets of Intersil Corporation as of January 3, 2003 and December 28, 2001, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the fiscal years ended January 3, 2003 and December 28, 2001, the 26 weeks ended December 29, 2000 and the 46 weeks ended June 30, 2000. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intersil Corporation at January 3, 2003 and December 28, 2001 and the consolidated results of its operations and its cash flows for the fiscal years ended January 3, 2003 and December 28, 2001, the 26 weeks ended December 29, 2000 and the 46 weeks ended June 30, 2000, 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.

As discussed in Note B to the consolidated financial statements, in the fiscal year ended January 3, 2003, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets."

Ernst + Young LLP

Ernst & Young LLP

Jacksonville, Florida
January 24, 2003,

Except for Note AC, as to which the
date is March 17, 2003

COMPANY INFORMATION

THE BOARD OF DIRECTORS

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Executive Chairman, Board of Directors

Richard M. Beyer, President
& Chief Executive Officer, Intersil

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Dean of the Jacobs School of Engineering,
University of California, San Diego

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Larry Ciaccia
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Meghan Dalton
Director, Investor Relations

Rick Furtney
Vice President, General Manager, High Performance Analog Product Group

Dan Heneghan
Vice President, Chief Financial Officer

Chris Henningsen
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Vern Kelley
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Rajeeva Lahri
Chief Technology Officer

Mohan Maheswaran
Vice President, General Manager, Elantec Product Group

Keith Prettyjohns
Vice President, Engineering, Wireless Networking

Lee Stoian
Vice President, Engineering, Elantec

Dave Zinsner
Corporate Controller and Treasurer

INVESTOR RELATIONS

Please contact the Investor Relations department for 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 1-888-468-3774 or write to us at:

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2401 Palm Bay Road, NE
Mailstop: 53-225
Palm Bay, Florida 32905

Or send an e-mail to: investor@intersil.com

INDEPENDENT AUDITORS

Ernst & Young LLP

SHAREHOLDER INFORMATION

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:

American Stock Transfer & Trust Co.
59 Maiden Lane
Plaza Level
New York, NY 10038
Phone: 1-800-937-5449
Email: info@amstock.com

DESIGN CENTERS

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More information is available on the Internet at www.intersil.com

Intersil trades on the NASDAQ under the ticker symbol ISIL.

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