Intersil 2004 Annual Report

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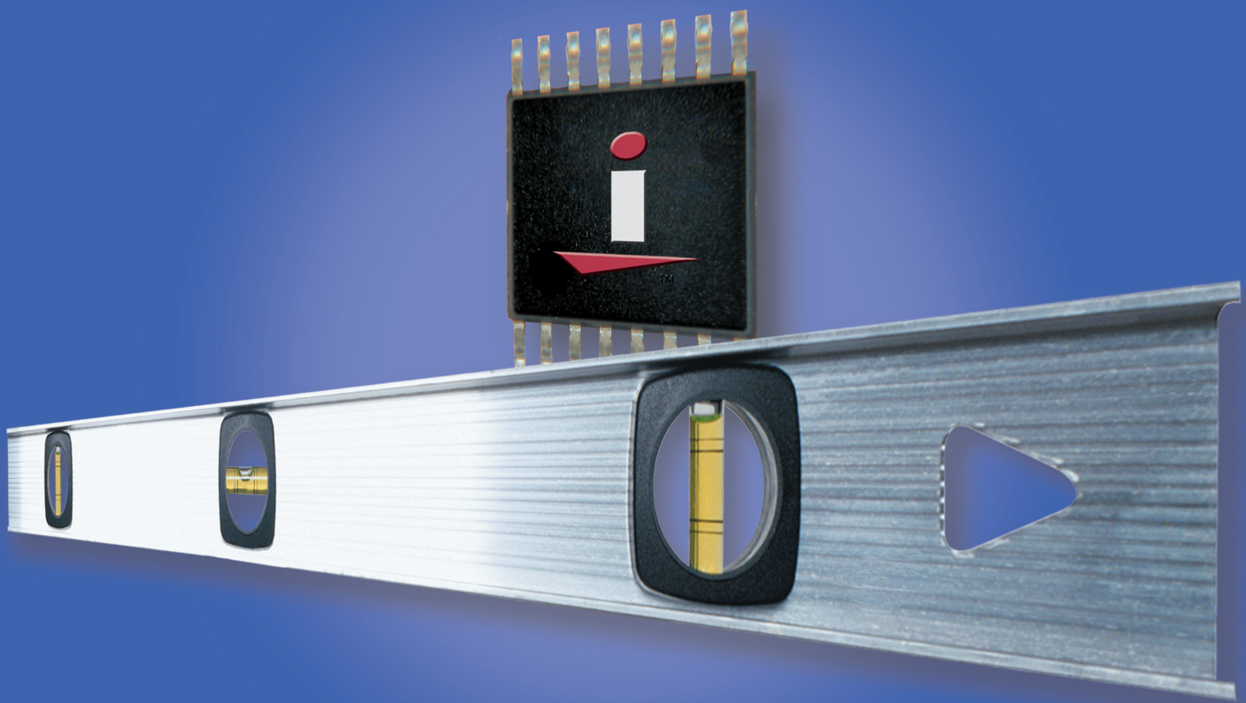


High Performance Analog

intersil®

Dear Shareholders

This was clearly a year of transition for Intersil, as 2004 was the Company's first full year as a pure-play high performance analog company. We made significant progress in structuring Intersil to be a leader in both application specific products (ASSPs) and general purpose proprietary products (GPPPs). We released over 300 new products throughout the year, a solid blend of ASSPs and GPPPs. The acquisition of Xicor in July added five key product families that further expanded our GPPP portfolio and added another two ASSP product families. Intersil exited the year with a broadly diversified 40 product families. This broad portfolio strongly positions us to address some of the fastest growing segments of the consumer, communications and industrial markets.

Financial Review

For 2004, Intersil reported annual revenues of $535.8 million, a 6% increase from $507.7 million for 2003. The momentum from our

focused product initiatives is building, and we expect to see revenue expansion in 2005. For the year, we reported gross margins of 56% and maintained operating margins of 19%. We continued to show strong cash generation, as the Company produced over $106 million in cash flow from operations during 2004 and exited the year with $692 million in cash and marketable securities. As a result of Intersil's strong positive cash flow and solid balance sheet, in September, our Board of Directors authorized a $150 million increase to our stock repurchase program and authorized a 33% increase to our quarterly cash dividend. For the full year of 2004, we returned more than $145 million to our shareholders in the form of stock repurchases and dividends.

Our Strategy is Working

Our strategy to become a premier high performance analog company is essentially a two-pronged approach. The first objective is to expand and grow our GPPP portfolio. These products represent approximately 40% of our total revenues and are largely concentrated in our industrial and communications market segments. In 2002, we began increasing our investments in general purpose products and further strengthened these investments in 2003 and 2004. The resulting products have begun to demonstrate the solid revenue growth that we expected and in 2004 these products showed double-digit revenue growth over the prior year. In the industrial segment, we experienced significant design win successes and generated solid revenue growth with our expanded product portfolio. Examples within this portfolio include our family of operational amplifiers, RS-485 interface products, analog switches and multiplexers, digitally controlled potentiometers (DCPs) and real time clocks. In the communications market, we diversified our product offerings and now have more than 10 product families that address a variety of applications. Examples within this area include power management solutions for set-top boxes, hot-plug products, and gateways, as well as RS-232 interface products. We are pleased with the results from our GPPPs in 2004 and expect to see further progress in 2005.

The second objective is to expand our ASSP families while increasing our silicon content per application within select high growth and more profitable areas. These products represent approximately 60% of our total revenues and address all four-market segments ---high-end consumer, computing, industrial and communications. Within the high-end consumer segment, we are excited about our traction in a variety of handheld devices and in numerous LCD display applications. We continue to see momentum in handheld applications with our battery chargers, switching regulators, analog switches, and display drivers. We have also made significant progress with our expanded product portfolio for LCD displays. In 2003, we shipped predominantly buffer amplifiers for these displays. By the end of 2004, we increased our display content considerably, generating revenue from our analog front ends, switching regulators and DCP products. We expect to see continued growth from these products in 2005. In addition to our new areas, we also experienced strong growth in our market-leading application specific product families such as our laser diode drivers for the CD and DVD recordable drives and our analog line drivers for the DSL market.

Expanding our product portfolio and increasing our content per application are critical to Intersil's future success.

By diversifying our product offerings, we will ensure growth across a broad set of applications. Our revenues in the high-end consumer, communications, and industrial segments all grew from 2003 levels. The more challenging computing segment, while still an important segment for us, is becoming a smaller percentage of total revenue as we expand into other areas.

Balance for Growth and Profitability

Our strategy to balance our general purpose and application specific products is clearly working. The double-digit growth in the GPPP families and our design-win traction in several new ASSP families are both important indicators that the foundation we have laid in 2004 positions us well for the upcoming year. We are committed to improving our financial metrics by growing revenues and expanding our financial leverage with a balanced product mix as we continue to control costs. We are enthusiastic about the progress we have made over the past year and believe that we are positioned for a year of steady growth and solid performance.

I would like to express my sincere appreciation to Dan Heneghan, Intersil's Chief Financial Officer, who will be leaving Intersil in June, 2005. Dan has been a major contributor in the evolution of Intersil into a high performance analog company, and I am personally very grateful to him for his many accomplishments over the past 15 years at Harris Semiconductor, and Intersil. The Intersil management team and our Board of Directors wish Dan well in all of his future professional and personal endeavors. I will personally miss Dan's expertise and professionalism.

I also want to express my sincere thanks to Greg Williams, Intersil's Chairman of the Board. Greg has been a strong partner since I transitioned into the leadership role at Intersil. With Greg's and the Board's support, we have transformed this Company into a pure play high performance analog company. I want to thank Greg for his support and wish him well in his future endeavors.

Finally, we would like to thank our shareholders, customers, employees and partners for their support and commitment to helping Intersil continue to succeed. Our results are ultimately tied to the innovation and consistent execution that we provide to our customers. We are in a strong position for the future and are optimistic about our success as a leading high performance analog company.

I look forward to an even more prosperous 2005.

Sincerely,
Rich Beyer
President and CEO

Many Contributions, Many Thanks

Gregory L. Williams
Chairman, Board of Directors

After many formative years at Intersil, Greg Williams will step down from his position as Chairman of the Board in May 2005. Mr. Williams has served on Intersil's Board of Directors since the Company's IPO, and assumed the role of Chairman in May 2002. Mr. Williams joined Harris Corporation in 1998 as a general manager and quickly transitioned to President of Harris Semiconductor. In this position, he started the renewal of the semiconductor unit, focusing the business on its RF, analog and power core competencies. He led the successful spin out from Harris Corporation in 1999 and Intersil's initial public offering in 2000, the largest U.S. semiconductor IPO in history to that date. In May 2002, Mr. Williams transitioned from CEO and President to his current role as Chairman. As Chairman, Mr. Williams has been instrumental in guiding the Company through its transition to a high performance analog company. The Board of Directors, Executive Management and employees thank Mr. Williams for his significant contributions and wish him well in his future endeavors.

Intersil is a leader in the design and manufacture of high performance analog semiconductors. The Company offers analog signaling, conditioning and power management solutions targeted at four markets: high-end consumer, industrial, communications and computing. Intersil's revenue is almost evenly distributed across these four markets.

High-End Consumer

The high-end consumer segment represented 21% of Intersil's 2004 revenue. This area continues to be the fastest growing market segment, as Intersil's products offer technology-leadership and the innovation that power today's consumer products. The consumer product families offer solutions for power management within handheld devices, market leading laser diode drivers for the optical storage market (CD and DVD recorders), and an expanded portfolio of products for the LCD display market.

The escalating demand for portability and connectivity continues to drive growth for handheld devices, such as, cell phones, smart phones, MP3 players, personal digital assistants (PDAs) and digital still cameras. At the beginning of 2004, Intersil entered this market with a family of battery chargers. Today, the Company continues to see momentum in battery chargers and has expanded its addressable silicon content with switching regulators, analog switches, authentication devices, fuel gauges, and display drivers. The customer base continues to broaden with wins at major OEMs across multiple platforms. This market represents an opportunity for high growth in 2005.

Unit demand for DVD recordable (DVD-R) devices continues to be quite strong. Many personal computers and stand-alone consumer devices are now equipped with DVD-R drives, which have the ability to record audio and video multimedia in large volumes. Market demand continues to push for faster recording speeds, thereby allowing for additional device innovation. Early in 2004, Intersil introduced a high-speed dual laser diode driver (LDD) that supports 16X DVD-R and 52X CD-R speeds anticipating the market's transition. The Company is uniquely positioned to take advantage of these technology trends and continues to be the leading provider of laser diode drivers.

Intersil has made significant progress expanding its product portfolio for TFT-LCD displays. At the beginning of the year, the Company predominantly shipped just its market leading buffer amplifiers for this application. By the end of 2004, the addressable silicon content expanded within these displays to include Intersil's analog front ends (AFEs), switching regulators and digital potentiometers (DCPs). The switching regulators, now in production, generate the multiple supplies needed within a TFT-LCD panel and support advanced functions that enable lower costs and higher performance solutions. Intersil's new DCP, optimized for electronically adjusting V-COM levels in TFT-LCD panels, is also in production. In the area of AFEs, the Company continues to secure design wins with several monitor and projector makers in Asia. These manufacturers are using Intersil's AFEs in their high-resolution products where both speed and linearity are valued. Additionally, Intersil continues to evolve its buffer products integrating multi-channels with a V-COM amplifier. This new family of products is able to process high-speed feedback signals fast enough to reduce flicker and thus improve the video viewing experience. By broadening the product offerings and leveraging the Company's success with buffer amplifiers, the TFT-LCD display product families are well positioned for exciting growth in 2005.

By addressing some of the fastest growing areas within the high-end consumer segment: handheld power management, LDDs for optical storage, and the TFT-LCD display product families, Intersil is poised for high growth from this segment in 2005.

Industrial

The industrial segment represented approximately 27% of Intersil's 2004 revenue. This segment largely uses general purpose proprietary products and has been a focus investment area for Intersil over the past several years. The broad product portfolio including converters, analog switches and multiplexers, interface transceivers, operational amplifiers and power management ICs serves a multitude of industrial applications such as factory automation, point-of-sale terminals, motor control, utility metering, medical diagnostic equipment, instrumentation, and global positioning systems. Through the acquisition of Xicor, the Company added several new families, including digitally controlled potentiometers (DCPs), real-time clocks (RTCs), voltage references and voltage supervisory ICs.

One of the most exciting areas in this market segment is video. Intersil has long been a recognized leader for high-speed video amplifiers. Now, Intersil offers a complete equalization and compensation solution for transmitting video signals over CAT-5 cables. These cables, which are commonly used for Ethernet connections, offer substantial cost savings compared to other approaches for long distance video transmission. Intersil's CAT-5 solutions minimize image degradation when a video signal is transmitted over these cables. Building on its systems expertise for this application, Intersil has expanded its total addressable silicon content by adding drivers with synchronization encoders, triple analog delay line ICs, equalizers with decoders, and crosspoint switches. These products are used in KVM systems (keyboard, video and mouse) where video signals are being transmitted and / or received from a single station (keyboard). These systems include airport TV systems, security camera systems, classroom monitoring and courtroom video systems.

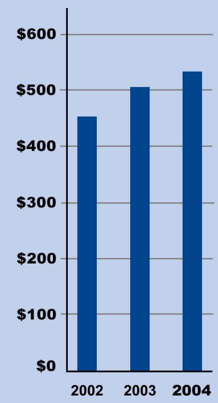
Intersil continues to expand its high performance operational amplifier family. One of the most innovative new families addresses the industry trade-off between speed and accuracy. This new family of amplifiers allows designers to deploy a highly stable, easy-to-use voltage feedback architecture without sacrificing the high-speed benefits of a current feedback amplifier. Amplifiers are ubiquitous building blocks used to implement filters, line drivers, attenuators, oscillators and equalizers, as such are used in many applications.

Factory automation requires systems that are able to measure, adjust and transmit data in a very noisy environment. Intersil's RS-485 transceivers, DCPs, and voltage references are designed to meet the challenges associated with this type of environment. Over the past year, Intersil has expanded its family of RS-485 transceivers featuring data rates up to 40Mbps, half or full duplex, 15kV ESD protection, and fractional loads. These transceivers allow data that is collected from remote equipment to be transmitted to a central processing location. A DCP, which replaces a mechanical potentiometer, can be used in industrial equipment to provide reference voltages or bias calibration. Intersil is a leading supplier of DCPs. Intersil's voltage references are ideal for more challenging conditions. The Company's voltage references are built using a proprietary process called Floating Gate Analog (FGA)™. This technology produces an extraordinarily accurate and stable voltage reference by storing a precise charge that is essentially unaffected by external conditions, such as, temperature variation, input voltage or time. The transceivers, DCPs and voltage references are well suited for a variety of applications including medical equipment, digital meters, instrumentation equipment and utility metering.

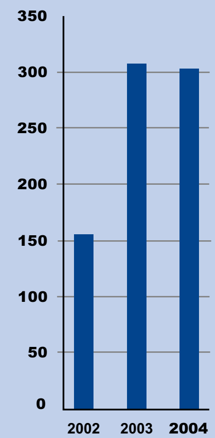
Intersil has leveraged its strong core competency and has made significant investments to expand its portfolio for this segment over the past several years. The Company expects this area to produce strong growth in 2005 and beyond.

Revenue

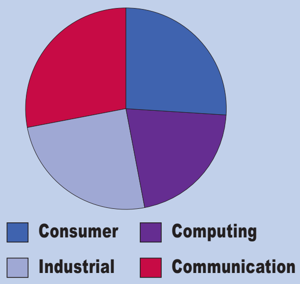
(Dollars in millions)



New Product Releases



2004 End Market Revenue



Communications

The communications segment represented 27% of Intersil's 2004 revenue. In total, Intersil now has more than 10 communications product families. Intersil offers analog signaling, conditioning and power management solutions for digital subscriber line (DSL) equipment, cable modems, routers, gateways and satellite set-top boxes.

Intersil is a leading supplier of DSL line drivers for central office equipment. The Company extended its reach into the market with the introduction of a new high-speed line driver focused on the VDSL market. VDSL offers higher data rates than ADSL over shorter distances and is gaining momentum primarily in Asia for data connections inside residential buildings. This application requires higher speed and lower distortion, and that makes it a perfect match with Intersil's proprietary process capabilities.

During the year, Intersil also announced four new high-speed digital-to-analog converters (DAC). Each device contains two high performance DACs that operate at rates up to 260 mega-samples-per-second. Target applications for these high performance devices include 3G cellular infrastructure, broadband wireless access systems, satellite communications, test instrumentation and high-resolution imaging, medical equipment.

In addition, the Company continued to see revenue growth from nearly all remaining communications product families including its RS-232 transceivers. These products are deployed in routers, WLAN equipment and telecom equipment. As the Company broadened its product offerings through GPPP expansion, the diversified product portfolio has enabled Intersil to steadily grow this segment for the past three years.

Computing

Sales to the computing segment represented 25% of the Company's 2004 revenue. Intersil remains the leading supplier of power management solutions for desktop and server applications and has committed the resources to maintain its market position.

The Company's integrated circuits manage core power in approximately 50% of the world's desktop computers and servers. Intersil also supplies switching regulators to other areas of the desktop market including double data rate memory (DDR), sleep state control devices and graphics cards. The Company introduced many innovative products for desktop, notebook and server applications during the year. For the desktop platform, Intersil expanded its family of multiphase PWM controllers with new products that integrate an all-in-one voltage identification or VID. These products support both Intel and AMD CPUs. The Company also introduced new PWM controllers that supply core power to IBM's new PowerPC® 970x processor family. Additionally, Intersil expanded its solutions for peripherals with a 5-in-1 ACPI regulator that supports DDR memory, graphics memory and bus termination.

For the notebook platform, Intersil recently introduced two multiphase core PWM controllers: one for the Intel Centrino™ platform and one for Intel's next generation mobile platform. Additionally, the Company launched a peripheral PWM controller that allows direct voltage conversion from an adapter, battery, or system rails for DDR memory, graphics or chip sets. With the design wins secured on refresh Centrino™ mobile platforms, Intersil expects to grow its notebook business over the course of 2005. The Company continues to secure design wins on next-generation platforms and is well positioned for revenue growth later this year and into 2006.

Finally for servers, Intersil introduced the industry's first solution for Intel's next generation 64-bit CPU that addresses high-end multi-processor servers. This is a significant product in terms of integration and technological superiority and raises the bar for a wide range of high-current, precision-voltage power conversion and regulation applications. This product is well positioned to serve other markets, such as, embedded computing, large-scale ASICs and FPGAs and other point-of-load needs.

In the second half of 2004, Intersil began to see the emergence of the market for digital power solutions. Intersil is the only major high performance analog company offering both analog and digital solutions in the market. Although the market size for digital is relatively modest today, the Company expects this to be an emerging growth opportunity beginning in 2006.

Intersil continues to be a leading innovator in computing and has the products, knowledge and design expertise to leverage the Company's leadership into other areas of power management. With existing technology and the Company's current product portfolio, Intersil expects this area to resume modest growth in 2005.

10-K 1 d10k.htm FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2004

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 000-29617

INTERSIL CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	**59-3590018**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1001 Murphy Ranch Road
Milpitas, California 95035
(408) 945-1323
(Address and telephone number of principal executive offices)

Securities registered under Section 12(b) of the Exchange Act:

None.

Securities registered under Section 12(g) of the Exchange Act:

Title of class
Class A Common Stock, par value $.01 per share

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information by reference in Part III of this Form 10-K. ☐

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2): Yes ☒ No ☐

The approximate aggregate market value of the registrant's voting common stock held by non-affiliates, computed by reference to the price at which the common equity was last sold or the average bid and ask price of the common equity as of March 15, 2005 was $2,584,814,161.

The number of shares outstanding of the registrant's Class A Common Stock as of March 15, 2005 was 152,316,686.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement to be filed with the Securities and Exchange Commission for the Registrant's 2004 Annual Meeting are incorporated by reference into Part III of this Form 10-K.

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INTERSIL CORPORATION
FORM 10-K
December 31, 2004

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Item 1. Business

General

We are a global designer and manufacturer of high performance analog integrated circuits (“ICs”). We believe our product portfolio addresses some of the fastest growing applications in four attractive end markets: high-end consumer, industrial, communications and computing.

Business Strategy

Our business strategy emphasizes the following key elements:

- *Focus on High Growth Markets*. We focus our investments on markets with the potential for high growth. We believe that the demand for ICs in our focused markets will be higher than that in the overall semiconductor industry.
- *Broaden Portfolio*. We intend to increase our investments in the design of general purpose proprietary products.
- *Maintain Technology Leadership*. We have 449 research and development employees working on innovative solutions for analog architectures. In conjunction with these efforts, we continue to expand our strong intellectual property position by seeking to increase our existing portfolio of over 1,050 patents.
- *Partner with Industry Leaders*. We partner with industry leaders in each of our target markets to deliver advanced technology for rapidly emerging applications. Our customer base of industry leaders illustrates the acceptance of our products to date, and we continue to partner with these customers and others to develop and market our next generation products. Our applications and design engineers support our customers’ end product development.
- *Maintain High Quality Customer Service*. Quality customer service is critical to our customer retention and sales growth. Through our customer relations initiatives, we believe we distinguish ourselves from our competitors. Additionally, our sales force and authorized representatives and distributors provide customer information programs and support for our global comprehensive customer service efforts.

Background

Intersil’s mission is to become a premier high performance analog company. We were formed in August 1999 when we acquired the semiconductor business of Harris Corporation (“Harris”). We began our transformation into a high performance analog company in 2002, with the acquisition of Elantec Semiconductor, Inc. (“Elantec”), followed by the divestiture of our wireless networking business in 2003 and this year’s acquisition of standard analog products leader, Xicor, Inc (“Xicor”). This year marks our first full year as a pure-play high performance analog company.

Our internet address is *www.intersil.com*. We post the following filings as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission: our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, our proxy statement on Form 14A related to our annual stockholders’ meeting and any amendments to those reports or statements filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings are available free of charge on our website. We have adopted a Corporate Code of Ethics, which is applicable to all employees, including our principal executive officers. A copy of the Code of Ethics is available free of charge from our website or upon request. The content on any web site referred to in this filing is not incorporated by reference into this filing unless expressly noted otherwise.

The public may read and copy any materials filed by us with the SEC at the SEC’s Public Reference Room at 450 Fifth Street, N.W., Washington, DC 20549 and may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Products and Technology

Our product strategy is focused on broadening our portfolio of Application Specific Standard Products (ASSP) and General Purpose Proprietary Products (GPPP) targeted at four high-growth markets — High-End Consumer, Industrial, Communications and Computing.

High-End Consumer

Our high-end consumer products include our optical storage, video display and handheld products. These products target high growth applications such as DVD recorders for the home market, liquid crystal display (“LCD”) televisions, cell phones and digital still cameras. The high-end consumer category represented 21% of our sales in fiscal year 2004.

Industrial

Our industrial products include our operational amplifiers, bridge driver power management products, interface and analog switches and multiplexers, and other standard analog products. These products target end markets including medical imaging, energy management and factory automation. The industrial products category represented 27% of our sales in fiscal year 2004.

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Communications

Our communications group is made up of our line drivers, broadband and hot plug power management products and high speed converters targeted to applications in markets such as DSL (Digital Subscriber Line), home gateway, satellite and VOIP (Voice Over Internet Protocol). The communications category represented for 27% of our sales in fiscal year 2004.

Computing

Our computing category includes desktop, server and notebook power management, including core power devices and other power management integrated circuits for peripheral devices. The computing category represented 25% of our sales in fiscal year 2004.

Geographic Financial Summary

We operate exclusively in the semiconductor industry. Substantially all revenues were the result of sales from semiconductor products. A summary of the operations by geographic area is summarized below ($ in thousands):

	Year Ended		
	January 3, 2003	January 2, 2004	December 31, 2004
United States Operations			
Net sales	$130,367	$126,411	$ 130,035
Tangible long-lived assets	141,905	150,616	97,250
International Operations			
Net sales	289,192	381,273	405,740
Tangible long-lived assets	2,032	2,794	4,104

We market our products for sale to customers, including distributors, primarily in the United States, China, Taiwan and Japan. A summary of percent of sales by country is summarized below:

	Year Ended	
	January 2, 2004	December 31, 2004
Sales by country for continuing operations		
United States	25%	24%
China	24	20
Taiwan	13	15
Japan	12	12
All Other	26	29

In addition, customers in Germany, Singapore, South Korea, Thailand, United Kingdom, Philippines, France and Italy each accounted for at least 1% of our sales.

Sales, Marketing and Distribution

In fiscal year 2004, we derived 66% of our sales from original equipment manufacturer (“OEM”) customers, original design manufacturer (“ODM”) customers, and contract manufacturers. We derived 34% of our sales through distributors and value added resellers.

Our sales organization is supported by customer service and logistics organizations throughout the world. Product orders flow to our fabrication facilities or to foundries where the semiconductor wafers are made. Most of our semiconductors are assembled and tested at the facilities of independent subcontractors. Finished products are then shipped to customers either directly or indirectly via third parties or internally–owned warehouses in the United States, Asia/Pacific and Europe.

To serve our customer base, we maintain a highly focused sales team, which focuses on those major accounts that are strategic to our marketing and product strategies. We also have direct geographical sales organizations, selling products in regions throughout the world. The geographical sales force works closely with a network of distributors and manufacturers’ representatives, creating a

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worldwide selling network. We have dedicated direct sales organizations operating in the North American, European, Japanese, and Asia-Pacific markets. Sales offices are strategically located near major OEM and ODM customers throughout the world. The technical applications organization is deployed alongside the direct sales force, ensuring both applications and product/customer focus. Our dedicated marketing organization supports field sales and is aligned by specific product group.

Manufacturers' representatives generally do not offer products that compete directly with our products, but may offer complementary items manufactured by others. Manufacturers' representatives do not maintain product inventory; instead, customers place large quantity orders either directly with us or through these Manufacturers' representatives. Smaller quantity multiple product orders are typically placed through distributors.

Typically distributors handle a wide variety of products, including products that compete with our products. Some of our sales to distributors are made under agreements allowing for market price fluctuations and/or the right to return some unsold merchandise. Virtually all distribution agreements contain an industry standard stock rotation provision allowing for minimum levels of inventory returns. In our experience, these inventory returns can usually be resold. We recognize revenue shipped to North American distributors when the distributor sells the product. Sales made to international distributors are recognized when product is shipped to the international distributors.

Research and Development

We believe that the continued introduction of new products in our target markets is essential to our growth. We incurred costs of $77.9 million, $91.3 million and $107.4 million on internal research and development projects for fiscal years 2002, 2003 and 2004, respectively. In 2004, we announced over 300 new products for our target markets. We believe that we must continue to innovate, enhance and expand our products and services to maintain our leadership position, and we intend to achieve this through in-house research and development and acquisitions. As of December 31, 2004, we had 449 employees engaged in research and development.

We also engage in advanced research projects with a number of universities, including the University of Central Florida, the Georgia Institute of Technology and the Virginia Polytechnic Institute. Technology and research have also been extended through selective investments in privately held emerging companies.

Manufacturing

We manufacture wafers in our Florida manufacturing facility. As of year-end 2004, the facility had an annual capacity of approximately 150,000 6" equivalent wafers. We also source wafers from leading foundry suppliers such as IBM Microelectronics, Taiwan Semiconductor Manufacturing Company and AMI Semiconductor. We believe that our strategy of internal and foundry suppliers provides an increased level of flexibility and capacity to meet production demand. In addition, this strategy significantly reduces the ongoing capital investment required to maintain our production capabilities. During 2004, we internally produced approximately 67% of our wafers and sourced the remaining 33% from foundry partners.

Following manufacture, wafers are subject to packaging and testing processes. The majority of these processes are performed by independent subcontractors located in Malaysia, China, Taiwan and the Philippines. However, we maintain assembly and test capabilities for certain products in Florida and California.

Historically, certain materials, including silicon wafers and other materials, have been in short supply. To date, we have not experienced delays in obtaining raw materials, which could have adversely affected production. As is typical in the industry, we must allow for significant lead times in delivery of certain materials. The production of integrated circuits, from wafer fabrication, through packaging and final testing, may take from eight to sixteen weeks. We manufacture thousands of product types and our customers typically require delivery within a short period of time following order. To consistently meet these requirements, we maintain a substantial work-in-process and finished goods inventory.

Manufacture, assembly and test of integrated circuits is a complex process. Normal risks include errors and interruptions in the production process, defects and shortages in raw materials and disruptions at supplier locations, as well as other risks, all of which can have an unfavorable impact to production costs, gross margins and our ability to meet customer demand.

Backlog

Our sales are made pursuant to purchase orders that are generally booked from one to six months in advance of delivery. Our standard terms and conditions of sale provide that these orders become non-cancelable thirty days prior to scheduled delivery for

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standard products and ninety days prior to scheduled delivery for semi-custom and custom products. Backlog is influenced by several factors, including market demand, pricing and customer order patterns in reaction to product lead times. We had backlog at December 31, 2004 of $78.8 million compared to $83.6 million at January 2, 2004.

Seasonality

The high-end consumer and computing markets generally experience relatively weak demand in the first fiscal quarter of each year and stronger demand in the third and fourth quarters. The industrial and communications markets, on the other hand, generally experience stronger demand in the first two quarters of the year, and slightly lower demand in the second half of the year.

Competition

We compete in our targeted markets on the basis of technical performance, product features, customized design, price, availability, quality and sales and technical support. Our ability to compete successfully depends on elements both within and outside of our control, including successful and timely development of new products and manufacturing processes, product performance and quality, manufacturing yields, product availability, intellectual property protection obtained by us and our competitors, customer service, pricing, industry trends and general economic trends.

Our major competitors include Asahi Kasei Microsystems Co. Ltd., Analog Devices Corporation, Linear Technology Inc., Maxim Integrated Products Inc., National Semiconductor Corporation, RichTek Technology Corporation, Semtech Corporation and Texas Instruments Inc.

Trademarks and Patents

We own rights to a number of trademarks and patents that are important to our business. Our trademarks do not expire, provided we continue to use the trademarks in our business. We have registered some of our trademarks with the U.S. Patent and Trademark Office and other foreign governmental trademark authorities. These registrations provide rights in addition to basic trademark rights. As long as we comply with renewal and other procedures specified by the applicable trademark laws, these additional rights will not expire. Our corporate policy is to protect proprietary products by obtaining patents for these products when practicable. We currently possess over 1,050 US and foreign patents and have approximately 431 US and foreign patents pending. The expiration dates of these patents range from 2005 to 2023.

Employees

Our worldwide workforce consisted of 1,481 employees (full- and part-time) as of December 31, 2004. None of our employees are subject to a collective bargaining agreement.

Environmental Matters

Our operations are subject to environmental laws in the countries in which we operate. The regulations govern, among other things, air and water emissions at our manufacturing facilities, the management and disposal of hazardous substances, and the investigation and remediation of environmental contamination. As with other companies in our business, the nature of our operations exposes us to the risk of environmental liabilities and claims. We believe, however, that our operations are substantially in compliance with applicable environmental requirements. Our costs to comply with environmental regulations were about $2.1 million, $1.7 million and $1.4 million in fiscal years 2002, 2003 and 2004, respectively.

The Harris facilities in Palm Bay, Florida, are listed on the National Priorities List (“NPL”) for groundwater clean up under the Comprehensive Environmental Response, Compensation and Liabilities Act (“Superfund”). Our adjacent facility is included in the listing since it was owned by Harris at the time of the listing. Remediation activities associated with the NPL site have ceased. However, Harris has continuing obligations to conduct groundwater monitoring on our property. Harris has indemnified us against any environmental liabilities associated with this contamination. This indemnification does not expire, nor is it subject to a dollar limitation.

Our former facility in Kuala Lumpur, Malaysia, which we sold to STATS ChipPAC, Inc. (“STATS ChipPAC”, formerly known as ChipPAC) in June 2000, has known groundwater contamination from past operations. The contamination was discovered in May 2000, during the closure activities associated with a former waste storage pad. This contamination has been attributed to activities conducted prior to our acquisition of the facility from Harris. Harris is conducting additional investigations and some remediation may be required. Harris has indemnified us against any environmental liabilities associated with this contamination, and we indemnified STATS ChipPAC against those liabilities. This indemnification does not expire, nor is it subject to dollar limitation.

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Based on the historical costs of these projects, previous experience with other remediation activities and our indemnification from Harris, we do not believe that the future cleanup costs to these facilities will be material to us.

Future laws or regulations and changes in the existing environmental laws or regulations may subject our operations to different, additional or more stringent standards. While historically the cost of compliance with environmental laws has not had a material adverse effect on our business, financial condition or results of operations, we cannot predict with certainty our future costs of compliance because of changing standards and requirements. We cannot be certain that materials costs will not be incurred in connection with the future compliance with environmental laws or with future cleanup costs related to currently unknown contamination.

Item 2. Properties

In the United States, we lease our corporate headquarters in Milpitas, California. Additional manufacturing, warehouse and office facilities are housed in approximately 846,000 square feet of owned facilities in Palm Bay, Florida.

We conduct engineering activity and maintain regional sales offices in various locations throughout the world including the United States, Asia, and Europe. All of our offices are leased generally under short-term leases, except our offices in Palm Bay, Florida.

We are consolidating and modernizing our Florida manufacturing and design facilities and we are currently seeking to sell approximately 300,000 square feet of manufacturing and office space. We expect to complete this project during fiscal year 2005 with capital expenditures related to this project of approximately $15.0 million.

We believe that our existing facilities are suitable and adequate for our present purposes, and that the productive capacity in our facilities is substantially being utilized or we have plans to utilize it.

Item 3. Legal Proceedings

On November 23, 1998, Harris, our predecessor, filed suit against Ericsson and Telefonaktiebolaget LM Ericsson for infringement of various cellular technology patents. Ericsson countersued and filed a complaint in the United States District Court for the Eastern District of Texas against Harris for infringement of certain telecommunication patents. Shortly after we purchased the semiconductor business from Harris, Ericsson joined us in the suit by filing an Amended Complaint on October 15, 1999. After discovery and depositions by the parties, only Ericsson's U.S. patent 4,961,222 remained in the suit. Ericsson sought damages from Harris and us, as well as injunctive relief prohibiting sales of the products at issue. On June 3, 2001, the jury returned a verdict against Harris and us regarding patent infringement of our 5513/5514/5518 SLIC families. The total amount awarded against Harris is $4.1 million, and the amount against us is $151,000. On July 11, 2002, the court granted Harris' and our post-trial motion for summary judgment, setting aside the entire jury verdict and giving Ericsson nothing. Ericsson filed an appeal in the United States Court of Appeals for the Federal Circuit, and we cross-appealed on September 4, 2002 to preserve our rights. On December 9, 2003, the Court of Appeals reversed the District Court's granting of judgment as a matter of law on non-infringement and affirmed the denial of judgment as a matter of law relating to damages. A motion for Rehearing was denied, and the case was remanded to the District Court. Subsequently, the court issued an injunction, enjoining Intersil from selling the effected SLIC families. Shortly after the issuance of the injunction, Ericsson and Intersil, entered into a patent license agreement, which resulted in the injunction against us being vacated without disruption of our SLIC business. We are now permitted to sell the affected SLIC families. Harris has filed a further appeal on behalf of itself and Intersil to the United States Court of Appeals for the Federal Circuit.

We and certain of our present officers and directors as well as our lead initial public offering underwriter and lead underwriter of our September 2000 initial public offering, Credit Suisse First Boston Corporation, were named as defendants in several law suits, the first of which is a class action filed on June 8, 2001 in the United States District Court for the Southern District of New York. The complaints allege violations of Rule 10b-5 based on, among other things, the dissemination of statements containing material misstatements and/or omissions concerning the commissions received by the underwriters of the initial public offering, as well as failure to disclose the existence of purported agreements by the underwriters with some of the purchasers in these offerings to

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thereafter buy additional shares of Intersil in the open market at pre-determined prices above the offering prices. These lawsuits against us, as well as those alleging similar claims against other issuers in initial public offerings, have been consolidated for pre-trial purposes with a multitude of other securities related suits. In April 2002, the plaintiffs filed a consolidated amended complaint against us and certain of our officers and directors. The consolidated amended complaint pleads claims under both the 1933 Securities Act and under the 1934 Securities Exchange Act. In addition to the allegations of wrongdoing described above, plaintiffs also now allege that analysts employed by underwriters who were acting as investment bankers for us improperly touted the value of our shares during the relevant class period as part of the purported scheme to artificially inflate the value of our shares. In October 2002, the individual employee defendants were dismissed from the class action suit. The plaintiffs seek unspecified damages, litigation costs and expenses. A tentative settlement has recently been reached between the plaintiffs and all defendant stock issuers, with ongoing negotiations as to the specific terms of the settlement agreement. Under that agreement, we would not be required to pay any damages, expenses or litigation costs to the plaintiffs. When negotiations are completed and the parties have agreed upon the final terms of the settlement agreement, the agreement must be approved by the court before dismissal of us and other parties to the agreement from the suit. On February 15, 2005, the Judge preliminarily approved the issuer's settlement agreement. Final approval is subject to certain revisions requested by the Judge, notice to the affected class members, and a final hearing.

On July 23, 2003, Symbol Technologies, Inc ("Symbol"), our customer, filed suit against us and our former subsidiary, Choice, in the Supreme Court of the State of New York, Suffolk County. Symbol alleges that we and Choice are required to indemnify Symbol in an amount in excess of $1.5 million for Symbol's expenses, including attorneys fees, incurred in defending certain patent infringement claims asserted against Symbol by Proxim Incorporated in two separate civil actions pending in the United States District Court for the District of Delaware. Symbol contends that the alleged infringement was caused by hardware and firmware components purchased from us and included in Symbol products. We dispute Symbol's claims and intend to defend the lawsuit vigorously.

On April 14, 2004, Freeport Partners, LLC ("Freeport"), a purported shareholder of Xicor, filed an action in the California Superior Court in Santa Clara County against Intersil, Xicor, and Xicor's directors in connection with our acquisition of Xicor. On June 4, 2004, we were dismissed with prejudice as a defendant, and on July 9, 2004, the Court sustained Xicor's demurrer with leave to amend. The Freeport suit was then consolidated with a similar suit flied by another plaintiff, and was renamed "In re Xicor. Inc. Shareholder Litigation." On August 9, 2004, plaintiffs in the consolidated suit filed an amended complaint, which does not name Intersil as a party. On December 21, 2004, the Superior Court sustained Xicor's demurrer without leave to amend, and on January 10, 2005, the Superior Court entered judgment dismissing Xicor with prejudice. On March 10, 2005, the plaintiffs filed a notice of appeal of the judgement dismissing Xicor. Our Executive Vice President Louis DiNardo, remains a defendant in this suit along with Xicor's former directors. Although Intersil and Xicor are no longer parties to this lawsuit, pursuant to our acquisition agreement with Xicor, we assumed certain specified obligations to indemnify Xicor's directors against claims, losses, damages, liabilities, costs and expenses (including reasonable legal expenses) in connection with such lawsuits.

In relation to the above matters, we have accruals of $4.1 million as of December 31, 2004 for estimated legal costs to defend our positions.

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

No matter was submitted to a vote of security holders during the fourth quarter of fiscal year 2004.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issue Purchases of Equity Securities

(a) Market Information:

Our Class A Common Stock has been traded on the NASDAQ Stock Market's National Market since February 25, 2000 under the symbol "ISIL." Prior to that time, there was no public market for our common stock, and there is currently no public market for our Class B Common Stock which has all been converted to Class A. The following table sets forth, for the periods indicated, the high and low closing prices per share of our Class A Common Stock as reported in NASDAQ Stock Market trading.

	High	Low
First quarter of 2003 (from January 4, 2003 to April 4, 2003)	$16.68	$13.87

Second quarter of 2003 (from April 5, 2003 to July 4, 2003)	$27.22	$14.32
Third quarter of 2003 (from July 5, 2003 to October 3, 2003)	$29.91	$22.93
Fourth quarter of 2003 (from October 4, 2003 to January 2, 2004)	$28.96	$23.30
First quarter of 2004 (from January 3, 2004 to April 2, 2004)	$29.29	$20.76
Second quarter of 2004 (from April 3, 2004 to July 2, 2004)	$23.99	$18.14
Third quarter of 2004 (from July 3, 2004 to October 1, 2004)	$18.42	$15.37
Fourth quarter of 2004 (from October 2, 2004 to December 31, 2004)	$17.54	$15.20

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(b) Holders:

On March 15, 2005 the last reported sale price for our Class A Common Stock was $16.97 per share. As of March 15, 2005, there were about 406 record holders of our Class A Common Stock.

(c) Dividends:

In fiscal year 2003 we declared and paid a dividend of $0.03 per share. In fiscal year 2004, we declared and paid a dividend of $0.13 per share ($0.03 for the last quarter of 2003 and the first two quarters of 2004, and $0.04 for the third quarter of 2004). On February 1, 2005, we declared a common stock dividend, of $0.04 per share, which was paid on February 25, 2005 to shareholders of record as of February 15, 2005.

Our dividend policy is impacted by, among other items, our views on potential future capital requirements relating to research and development, creation and expansion of sales distribution channels, investments and acquisitions, share dilution management, legal risks, liquidity, and profitability. Any determination to declare and pay dividends will be made by our Board of Directors in light of these and other factors the Board of Directors deems relevant.

(d) Issuer Purchases of Equity Securities:

On September 13, 2004, we announced the approval by our Board of Directors to repurchase $150.0 million of our Class A common stock during the twelve months following the announcement. Our prior repurchase plan of $100.0 million had been fully utilized as of the announcement date of our new plan. During fiscal year 2004, we, as authorized by our Board of Directors, repurchased 6,921,570 shares of our Class A common stock at an approximate cost of $127.7 million. As of December 31, 2004, we held 8,078,670 shares of treasury stock at a cost of $157.7 million.

Period						
Begin	**End**	**(a)**	**(b)**	**(c)**	**(d)**	
10/02/04	10/29/04	130,000	$ 16.09	130,000	$ 128,157,554	Plan A
10/30/04	11/26/04	1,235,000	$ 16.54	1,235,000	$ 107,728,171	Plan A
11/27/04	12/31/04	1,098,821	$ 15.91	1,098,821	$ 90,249,814	Plan A
Total		2,463,821	$ 16.23	2,463,821	$ 90,249,814	

(a) Total Number of Shares Purchased
(b) Average Price Paid per Share
(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
(d) Maximum Number of Shares or Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs

Footnotes Required

		Plan A
(1)	The date each plan or program was announced	September 13, 2004
(2)	The dollar amount approved	$ 150,000,000
(3)	The expiration date of each plan or program	September 12, 2005
(4)	Each plan or program that has expired during the period covered by the table	No
(5)	Each plan or program the issuer has determined to terminate prior to expiration, or under which the issuer does not intend to make further purchases	No

(e) Recent Sales of Unregistered Securities: We did not sell unregistered securities during fiscal year 2004.

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Item 6. Selected Financial Data

The following table sets forth our selected financial data. The historical financial data as of and for the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, fiscal year ended 2001, fiscal year ended 2002, fiscal year ended 2003 and fiscal year ended 2004 are derived from our audited consolidated financial statements. All periods presented have been audited. 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." ($ in millions, except per share amounts)

	46 Weeks Ended June 30, 2000 (a)(j)(k)	26 Weeks Ended December 29, 2000 (g) (j)	Fiscal Year 2001 (b)(f)(i)(j)	Fiscal Year 2002 (c)(f)(h)(i)	Fiscal Year 2003 (d)(f)(i)	Fiscal Year 2004 (e)(f)(i)
Revenue	$ 548.5	$ 338.4	$ 398.5	$ 419.6	$ 507.7	$ 535.8
Income (loss) from continuing operations before cumulative effect of a change in accounting principle	$ (28.5)	$ 16.3	$ 96.0	$ (23.3)	$ 58.5	$ 40.4
Basic income (loss) per share from continuing operations before cumulative effect of a change in accounting principle	$ (0.37)	$ 0.16	$ 0.91	$ (0.19)	$ 0.42	$ 0.29
Diluted income (loss) per share before cumulative effect of a change in accounting principle	$ (0.37)	$ 0.15	$ 0.88	$ (0.19)	$ 0.41	$ 0.28
Total assets	$ 933.9	$ 1,229.8	$ 1,200.2	$ 2,369.5	$ 2,448.9	$ 2,587.6
Long-term debt, including current portion	$ 116.6	$ 65.5	—	—	—	—
Dividend per common share	—	—	—	—	$ 0.03	$ 0.13

The following transactions significantly affect the comparability of the results between the fiscal periods above:

a) We were formed on August 13, 1999 through a series of transactions, in which we and our wholly owned subsidiary, Intersil Communications, Inc. ("Intersil Communications"), acquired the semiconductor business of Harris.

b) On March 16, 2001, we sold the assets of our Discrete Power product group to Fairchild Semiconductor. The results of operations of this product group were excluded after the date of sale. Please refer to Note H within the Consolidated Financial Statements for further discussion.

c) On May 14, 2002, we acquired Elantec. Accordingly, Elantec's results of operations since the acquisition date are included within the results above. Please refer to Note I within the Consolidated Financial Statements for further discussion.

d) On August 28, 2003, we sold the assets of our Wireless Networking product group to GlobespanVirata, Inc. The results of operations of the product were excluded after the date of sale. Please refer to Note W within the Consolidated Financial Statements for further discussion.

e) On July 29, 2004, we acquired Xicor by issuing Intersil Class A common stock and cash to purchase 100% of the outstanding common stock of the Milpitas, California-based company. The acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations of Xicor have been included in the accompanying Condensed Consolidated Financial Statements since the acquisition date. Please refer to Note K within the Consolidated Financial Statements for further discussion.

f) During fiscal year 2002, fiscal year 2003 and fiscal year 2004, we recorded various impairment charges. Please refer to Note N within the Consolidated Financial Statements for further discussion.

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g) In 2000, we changed our year-end to the closest Friday to December 31. Accordingly, we had a 26-week transition period ending December 29, 2000.

h) Fiscal year 2002 contains 53 weeks. All other periods identified as "fiscal years" include 52 weeks.

i) During fiscal year 2002, fiscal year 2003 and fiscal year 2004, we recorded various restructuring charges. Please refer to Notes L & M within the Consolidated Financial Statements for further discussion.

j) In the 46 weeks ended June 30, 2000, the 26 weeks ended December 29, 2000, and fiscal year 2001, we recorded losses related to the early extinguishment of some of our debt holdings.

k) During the 46 weeks ended June 30, 2000, we sold our Malaysian fabrication facilities.

Item 7. 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 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 our and our 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 we undertake no obligation to update or revise the "forward-looking statements," whether as a result of new information, future events or otherwise.

Overview

We are a global designer and manufacturer of high performance analog integrated circuits. We believe our product portfolio addresses some of the fastest growing applications within four attractive end markets: high-end consumer, industrial, communications and computing.

Basis of Presentation

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

On August 28, 2003, we completed the sale of our Wireless Networking product group to GlobespanVirata, Inc. ("GlobespanVirata"). The results of our Wireless Networking product group are classified as discontinued operations.

On July 29, 2004, we acquired Xicor by issuing Intersil Class A common stock and cash to purchase 100% of the outstanding common stock of the Milpitas, California-based company. The acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations of Xicor have been included in the accompanying financial schedules since the acquisition date.

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Fiscal Year 2004 Compared with Fiscal Year 2003

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	
	December 31, 2004	January 2, 2004	December 31, 2004	January 2, 2004
	($ in thousands)			
Revenue	$ 535,775	$507,684	100.0%	100.0%
Costs, expenses and other income				
Cost of product sales (a)	237,155	221,074	44.3%	43.5%
Research and development (b)	107,430	91,267	20.0%	18.0%
Selling, general and administrative (b)	90,697	88,274	16.9%	17.4%
Amortization of intangibles	7,397	6,298	1.4%	1.2%
Amortization of unearned compensation	10,834	10,895	2.0%	2.2%
In-process research and development	31,205	—	5.8%	—
Impairment of long-lived assets	26,224	12,576	4.9%	2.5%
Restructuring	6,104	4,887	1.1%	1.0%
Other loss	3,439	—	0.6%	—
(Gain) on sale of certain operations	(901)	(1,428)	-0.2%	-0.3%
Operating income	16,191	73,841	3.0%	14.5%
Interest income, net	13,227	8,958	2.5%	1.8%
Gain (loss) on investments	3,799	(3,443)	0.7%	-0.7%
Income from continuing operations before income taxes	33,217	79,356	6.2%	15.6%
Income taxes (benefit)	(7,136)	20,899	-1.3%	4.1%
Income from continuing operations	40,353	58,457	7.5%	11.5%
Discontinued operations				
Income from discontinued operations	1,092	19,983	0.2%	3.9%
Income taxes from discontinued operations	764	32,603	0.1%	6.4%
Net income (loss) from discontinued operations	328	(12,620)	0.1%	-2.5%
Net income	$ 40,681	$ 45,837	7.6%	9.0%

Note: Percentages may not add due to rounding.

(a) Cost of product sales includes the following:				
Amortization of unearned compensation	$ 704	$ 1,085	0.1%	0.2%
(b) Amortization of unearned compensation is excluded from the following:				
Research and development	$ 4,942	$ 4,547	0.9%	0.9%
Selling, general and administrative	5,892	6,348	1.1%	1.3%
	$ 10,834	$ 10,895	2.0%	2.2%

Revenue

Revenue from continuing operations for fiscal year 2004 grew 5.5% to $535.8 million from $507.7 million during fiscal year 2003. This growth was primarily due to a 38% increase in high-end consumer products and a 16% increase in communications products, which was partially offset by a decline of 18% in our computing products. In aggregate, higher unit demand increased sales by $52.4 million, this was offset by a decline in average selling prices (ASPs), which decreased sales by $24.0 million.

Geographically, 60.1%, 24.9% and 15.0% of product sales were derived from Asia/Pacific, North America and Europe, respectively, during fiscal year 2004 compared to 59.6%, 26.6% and 13.8% during fiscal year 2003. We ship our products to a variety of countries (in descending order by volume) including the United States, China, Taiwan, Japan, Germany, Singapore, South Korea, Thailand and United Kingdom as well as others with less volume. The United States comprised approximately 24% of the shipments, followed by China with 20%, followed by Taiwan with 15% and Japan with 12% during fiscal year 2004.

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Cost of Product Sales

Cost of product sales consists primarily of purchased materials, labor and overhead (including depreciation) associated with product manufacturing, plus licensing and sustaining engineering expenses pertaining to products sold. In fiscal year 2004, gross margin from continuing operations increased 4.2% or $12.1 million to $298.7 million from $286.6 million in fiscal year 2003. As a percentage of sales, gross margin from continuing operations was 55.7% during fiscal year 2004 compared to 56.5% during fiscal year 2003 - a 0.8 percentage point decline. The decrease in gross margin was partially due to a decline in ASPs and also due to two hurricanes that impacted our operations in Palm Bay, Florida. These hurricane related costs consisted primarily of additional paid time off during the temporary closure of our Palm Bay facilities.

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 from continuing operations increased 17.7% to $107.4 million during fiscal year 2004 from $91.3 million during fiscal year 2003. The increase in spending is primarily driven by an increase in labor expenses due to increased hiring and the acquisition of Xicor.

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

SG&A costs, which include marketing, selling, general and administrative expenses from continuing operations was $90.7 million during fiscal year 2004 compared to $88.3 million during fiscal year 2003. The increase in spending is primarily due to an increase in labor expenses resulting from the acquisition of Xicor. As a percentage of sales, SG&A costs decreased to 16.9% in fiscal year 2004 from 17.4% in fiscal year 2003. This decrease is primarily due to an increase in sales.

Amortization

Amortization of intangible assets from continuing operations increased to $7.4 million during the fiscal year 2004 from $6.3 million during fiscal year 2003. The increase is due to the addition of developed technology, resulting from the purchase of Xicor and certain of the assets of Bitblitz Communications. Definite lived intangible assets are being amortized over their useful lives ranging from 9 to 11 years.

FAS 142 requires testing goodwill for impairment at least annually while checking for impairment indicators quarterly. During the fourth quarter of 2004, 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 of goodwill.

Unearned Compensation

Amortization of unearned compensation from continuing operations decreased slightly to $10.8 million during fiscal year 2004 from $10.9 million during fiscal year 2003. The increase in unearned compensation due to the Xicor acquisition was more than offset by the decrease in unearned compensation related to the Elantec acquisition, as most of it has been amortized.

In-Process Research and Development

In connection with our acquisition of Xicor in July 2004, we allocated $31 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 the 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 charge to income in fiscal year 2004.

In valuing the in-process research and development, our management used 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 6 to 9 years of after tax cash flow projections depending on the individual project. We used a discount

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rate of 16% based on an approximation of the cost of capital. The percentage of completion for the projects ranges from 42% to 67%, and the total cost to complete all projects at the time of the acquisition was approximately $4.5 million. The various project groupings, the cost to complete the projects and the average percentage complete within each grouping as of December 31, 2004 are reported below ($ in millions):

Project	Cost to Complete	Percent Complete	Value Assigned to Project
Digitally controlled potentiometers	$ 0.9	58%	$ 6.9
Central processing unit	0.4	62%	3.3
Real time clocks	0.3	50%	1.3
Analog front end	2.0	42%	16.8
Data acquisition	0.5	65%	1.9
Intellectual property	0.4	67%	0.8
Total	$ 4.5		$ 31.0

Although these estimates were developed with the assistance of an independent third party, management is primarily responsible for the valuation. These estimates 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.

Impairment of Long-Lived Assets

During fiscal year 2003, we recorded an impairment of long-lived assets of $12.6 million ($7.5 million net of tax). This primarily consisted of a $10.4 million ($6.4 million net of tax) write-down of certain definite-lived intangible assets, which were tested for impairment following the sale of our Wireless Networking product group. Specifically, we impaired a portion of its customer base and developed technology balances that resulted from the purchase of the net assets of Harris Corporation's semiconductor business. The impairments were measured as the excess of the assets' carrying value over the assets fair value as determined by the present value of cash flows arising from the assets in accordance with SFAS 144. Also included in the aforementioned $12.6 million impairment was a $2.0 million impairment ($1.2 million net of tax) related to the write-off of a prepaid royalty for which we were not going to incorporate the related technology into our products. In accordance with SFAS 144, the write-off reduced the value of the prepaid royalty to zero as we did not expect to realize any future benefit from the asset.

On March 18, 2004, we announced that we would move all internal volume of our 0.6-micron (um) wafer processing to IBM's Burlington, Vermont manufacturing facility. We will focus our Palm Bay, Florida manufacturing capacity on products, which are fabricated on greater than 1um proprietary processes. Due to this shift in manufacturing to an outside provider, we recorded an impairment of $26.6 million ($16.5 million net of tax) during the quarter ended April 2, 2004 on certain production equipment that was used to produce the 0.6-um wafers at our Palm Bay facility. The impairment was calculated as the excess of the assets' carrying value over their fair value as determined by the market prices of these types of assets. Majority of these assets have either been sold or are being held for sale. During fiscal year 2004, we reversed $0.8 million of the impairment on this equipment as the actual selling price of certain assets exceeded the impaired value by at least that amount.

Also during fiscal year 2004, we impaired $0.4 million of prepaid deposits to vendors due to a change in a certain product's roadmap. This long-term prepaid asset was impaired completely as we had no future use for the asset. The impairments described in this footnote pertain to continuing operations and are contained within the caption "Impairment of long-lived assets" on the face of the Condensed Consolidated Statements of Income.

Other Losses

During fiscal year 2004, Hurricanes Frances and Jeanne damaged our Palm Bay, Florida facilities. We began restoration efforts during September and completed the majority of the work by the end of fiscal year 2004. We recorded $2.7 million in losses related to the reconstruction costs incurred and for those contracted in order to fully restore the facilities to their original usefulness. The remaining $0.7 million contained in the "other losses" line resulted from the license agreement that the Company entered into with Ericsson (see Item 3).

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Gain on Sale of Certain Operations

On March 16, 2001, we sold the assets of our Discrete Power product group to Fairchild Semiconductor International, Inc. (“Fairchild”). As a result of the sale we recorded an initial gain of $168.4 million ($81.8 million net of tax) during fiscal year 2001. During fiscal year 2003, we recorded an additional $1.4 million ($0.9 million net of tax) gain. This gain was the result of a reduction of accrued exit costs due to favorable contract termination negotiations with software vendors. Similarly, in fiscal year 2004, we recorded an additional $0.9 million ($0.6 million net of tax) gain related to the sale of our Discrete Power product group. This gain was the result of a reduction of accrued exit costs due to favorable contract negotiations with landlords and other vendors.

Interest Income, net

Net interest income increased to $13.2 million during fiscal year 2004 from $9.0 million during fiscal year 2003. This increase is due to longer maturities on our held-to-maturity investment balances and increases in short-term interest rates during 2004.

Gain (Loss) on Investments

During fiscal year 2003, we recorded an impairment charge of $13.0 million related to an investment, which is accounted for under the cost method of accounting since we hold less than 20% ownership and can not exercise influence over the investee. 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. The impairment was a result of a significant reorganization at the investee, which we believe, substantially eliminated their chances of making a profit in the future.

During fiscal year 2003, we recognized a $7.2 million gain ($4.7 million net of tax) from the sale of all shares of GlobespanVirata common stock received as part of the sale (15,462,185 shares). The gain was calculated as the net proceeds from the sale less the carrying value of the stock, which was determined as the fair market value during the five-day period including the date of the transaction and the two days preceding and succeeding this date. The GlobespanVirata common stock represented a portion of the consideration paid to us by GlobespanVirata in connection with the sale of our Wireless Networking product group.

During fiscal year 2003, we recorded a gain of $0.6 million ($0.4 million net of tax) from the collection of previously escrowed funds resulting from the sale of our investment in PowerSmart, Inc. in June 2002. The entire escrow receipt was recorded as a gain as the investment had no carrying value.

During fiscal year 2003, we had marketable securities that consisted of shares of STATS ChipPAC common stock that were classified as investments on the balance sheet. They were recorded at fair value, which was determined based on quoted market prices. As of January 2, 2004 we carried an unrealized gain on the investment of $1.7 million, before taxes. We held 998,816 shares, or approximately 1% of total STATS ChipPAC shares outstanding, at January 2, 2004.

During fiscal year 2004, we sold all of our holdings in STATS ChipPAC for a realized gain of $3.8 million. Proceeds from the sale were $8.7 million.

Tax Expense

The tax benefit for fiscal year 2004 of 21% differs from the tax expense for fiscal year 2003 of 26% due primarily to the tax benefit recorded in connection with the settlement of the 1999 and 2000 Internal Revenue Service audits during the first quarter of 2004. In addition, an increase in our interest from tax-exempt versus taxable investments, and the impact of the in-process R&D charge related to the Xicor acquisition also contributed to the difference.

In determining net income, we must make certain estimates and judgments in the calculation of tax expense and tax liabilities and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenues and expenses.

In the ordinary course of business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize probable liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals. Such differences could have a material impact on the income tax provision and operating results in the period in which such determination is made.

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In addition to the risks to the effective tax rate described above, the effective tax rate reflected in forward-looking statements is based on current enacted tax law. Significant changes in enacted tax law could materially affect these estimates.

On October 22, 2004, the American Jobs Creation Act ("the AJCA") was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. We may elect to apply this provision to qualifying earnings repatriations in 2005. We have started an evaluation of the effects of the repatriation provision; however, we don't expect to be able to complete this evaluation until after Congress or the Treasury Department provide additional clarifying language on key elements of the provision. We expect to complete our evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of the additional clarifying language. The range of possible amounts that we are considering for repatriation under this provision is between zero and $300 million. The related potential range of income tax liability is between zero and $15 million.

Discontinued Operations

During fiscal year 2003, we sold our Wireless Networking product group to GlobespanVirata, Inc. with the appropriate authority of the Board of Directors. The Wireless Networking product group produced a portfolio of semiconductor solutions for the wireless local area network market ("WLAN"). Initial proceeds from the transaction included $250.0 million in cash and $114.4 million in GlobespanVirata common stock. These shares represented approximately 12% of the voting shares prior to the sale and approximately 10% of the voting shares following the sale. We sold all of the acquired GlobespanVirata shares in the same quarter in which we received them. Additionally, we retained the product group's accounts receivable and accounts payable balances that existed at the time of sale. We recorded a gain on the sale of this product group of $61.4 million ($28.0 million net of tax) during fiscal year 2003.

During fiscal year 2004, we recorded a gain of $6.9 million ($4.2 million net of tax) primarily as a result of finalizing a contingent working capital adjustment with GlobespanVirata. Also, during fiscal year 2004, we reached a settlement with Agere Systems Corporation (Agere) on all pending litigations between the two companies under mutually agreeable terms. As part of the confidential agreement, we recorded an expense of $5.8 million ($5.0 million net of tax).

Backlog

Our sales are made pursuant to purchase orders that are generally booked from one to six months in advance of delivery. Our standard terms and conditions of sale provide that these orders become non-cancelable thirty days prior to scheduled delivery for standard products and ninety days prior to scheduled delivery for semi-custom and custom products. Backlog is influenced by several factors, including market demand, pricing and customer order patterns in reaction to product lead times. We had backlog at December 31, 2004 of $78.8 million compared to $83.6 million at January 2, 2004. Although not always the case, backlog can be a leading indicator of performance for the next two quarters.

Fiscal Year 2003 Compared with Fiscal Year 2002

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	
	January 2, 2004	January 3, 2003	January 2, 2004	January 3, 2003
	($ in thousands)			
Revenue	$507,684	$419,559	100.00%	100.0%
Costs, expenses and other income				
Cost of product sales (a)	221,074	200,142	43.5%	47.7%
Research and development (b)	91,267	77,943	18.0%	18.6%
Selling, general and administrative (b)	88,274	89,598	17.4%	21.4%
Amortization of intangibles	6,298	6,783	1.2%	1.6%
Amortization of unearned compensation	10,895	12,510	2.2%	3.0%
In-process research and development	—	53,816	—	12.8%
Impairment of long-lived assets	12,576	5,909	2.5%	1.4%
Restructuring	4,887	4,744	1.0%	1.1%
(Gain) on sale of certain operations	(1,428)	—	-0.3%	—
Operating income (loss)	73,841	(31,886)	14.5%	-7.6%

Interest income, net	8,958	11,268	1.8%	2.7%
Gain (loss) on investments	(3,443)	1,264	-0.7%	0.3%
Income (loss) from continuing operations before income taxes	79,356	(19,354)	15.6%	-4.6%
Income taxes	20,899	3,942	4.1%	0.9%
Income (loss) from continuing operations	58,457	(23,296)	11.5%	-5.6%
Discontinued operations				
Income from discontinued operations	19,983	33,300	3.9%	7.9%
Income taxes from discontinued operations	32,603	14,974	6.4%	3.6%
Net income (loss) from discontinued operations	(12,620)	18,326	-2.5%	4.4%
Net income (loss)	$ 45,837	$ (4,970)	9.0%	-1.2%

Note: Percentages may not add due to rounding.

(a) Cost of product sales includes the following:

Amortization of unearned compensation	$ 1,085	$ 1,992	0.2%	0.5%

(b) Amortization of unearned compensation is excluded from the following:

Research and development	$ 4,547	$ 5,724	0.9%	1.4%
Selling, general and administrative	6,348	6,786	1.3%	1.6%
	$ 10,895	$ 12,510	2.2%	3.0%

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Revenue

Revenue from continuing operations for fiscal year 2003 increased 21.0% to $507.7 million from $419.6 million during fiscal year 2002. Increased demand for desktop and notebook power management, optical storage and DSL products increased revenue by $77.2 million. In addition, fiscal year 2003 contained a full-year of Elantec revenues and fiscal year 2002 contained approximately six months of such revenues. This resulted in an additional $41.8 million in revenue for fiscal year 2003. We also changed our revenue recognition for North American distribution in fiscal year 2002, which caused revenues to be higher in fiscal year 2003 by $14.7 million. These increases were offset by a $45.4 million decline in automotive related products as a result of our exit of that product group. In total, average selling price declined 4%, which caused a $17.8 million decrease in revenue. As an offset, volume increased by 26%, which caused a $105.9 million increase in revenue.

Geographically, 59.6%, 26.6% and 13.8% of product sales were derived from Asia/Pacific, North America and Europe, respectively, during fiscal year 2003 compared to 48.9%, 31.1% and 20.0% during fiscal year 2002. The increase in the percentage of revenue generated from Asia/Pacific in 2002 over 2003 is primarily due to the acquisition of Elantec, which shipped approximately 40% of its products to Japan during fiscal year 2003. We ship our products to a variety of countries (in descending order by volume) including the United States, China, Taiwan, Japan, Germany, Singapore, South Korea, Thailand, United Kingdom and Malaysia as well as others with less volume. The United States comprised approximately 25% of the shipments, followed by China with 24% and Taiwan with 13% during fiscal year 2003.

Cost of Product Sales

Cost of product sales consists primarily of purchased materials, labor and overhead (including depreciation) associated with product manufacturing, plus licensing and sustaining engineering expenses pertaining to products sold. In fiscal year 2003, gross profit from continuing operations increased 30.6% or $67.2 million to $286.6 million from $219.4 million in fiscal year 2002. As a percentage of sales, gross margin from continuing operations was 56.5% during fiscal year 2003 compared to 52.3% during fiscal year 2002, a 4-percentage point improvement. The primary driver of the increase, was growth in revenue, which increased gross profit by $43.6 million. In addition, the full-year of Elantec increased gross profit by $22.4 million. The closure of our Findlay, Ohio facility in mid 2002, improved gross profit by approximately $10.5 million. We also changed our revenue recognition policy during fiscal year 2002 due to changes in our ability to estimate product returns. Since this change was not repeated in fiscal year 2003, gross profit improved by $10.2 million. The exit of our lower margin Automotive products group decreased gross profit by $19.8 million.

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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 from continuing operations increased 17.2% to $91.3 million during fiscal year 2003 from $77.9 million during fiscal year 2002. The full year impact of the acquisition of Elantec contributed approximately $10 million in additional spending during the first four and one half months of fiscal year 2003. Also we increased overall R&D expenditures primarily on payroll, which contributed to a record year for new product introductions: 312 in 2003 versus 158 in 2002.

Selling, General and Administrative (“SG&A”)

SG&A costs, which include marketing, selling, general and administrative expenses from continuing operations was relatively flat with expenses of $88.3 million during fiscal year 2003 compared to $89.6 million during fiscal year 2002. However, as a percentage of sales, SG&A costs decreased to 17.4% in fiscal year 2003 from 21.4% in fiscal year 2002. This decrease is primarily due to workforce reduction actions taken during 2002 and 2003. Specifically, we expect to see annual savings of $3.0 million, $2.1 million and $2.6 million in future periods for actions taken for the integration of Elantec (second quarter 2002), a workforce reduction (first quarter 2003) and the Wireless Networking product group divestiture (third quarter 2003), respectively. These savings were partially offset by the full year effects of the SG&A costs for Elantec, which contributed approximately $6.1 million in increased spending.

Amortization

Amortization of intangible assets from continuing operations decreased to $6.3 million during the fiscal year 2003 from $6.8 million during fiscal year 2002. Definite lived assets are being amortized over their useful lives ranging from 9 to 11 years.

Unearned Compensation

Amortization of unearned compensation from continuing operations decreased to $10.9 million during fiscal year 2003 from $12.5 million during fiscal year 2002. This decrease is the result of the winding down of unearned compensation resulting from the Elantec acquisition.

In-Process Research and Development

In connection with our acquisition of 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 the merger, 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 charge to income in fiscal year 2002.

In making the purchase price allocation, our management 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 2 to 8 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 at the time of the acquisition was approximately $38.4 million. The various project groupings, the cost to complete the projects and the average percentage complete within each grouping as of December 31, 2004 are set forth in the table below ($ in millions):

Project Group	Number of Projects	Cost to Complete	Average Percent Complete	Value Assigned to Project
Optical Storage	61	$ —	100%	$ 13.8
Communications	7	—	100%	1.6
DC/DC Converters	26	3.3	70%	5.8
Amplifiers and Comparators	83	—	100%	18.6
Other Video	46	2.1	80%	10.2
TFT Buffers	17	0.2	95%	3.8
Total	240	$ 5.6		$ 53.8

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Although these estimates were developed with the assistance of an independent third party, management is primarily responsible for the valuation. These estimates 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.

Impairment of Long-Lived Assets

During fiscal year 2002, we recorded two impairments totaling $5.9 million. The first impairment of $3.6 million ($2.3 million net of tax) related to the property, plant and equipment within the Findlay, Ohio manufacturing facility. The write-down reduced the carrying value of the assets to their fair value, which was based on the contractual sales price of the assets in accordance with SFAS 144. Prior to this impairment, the carrying value of the Findlay assets was $5.2 million. As these assets were held and used until their disposal, we continued depreciation over their remaining useful lives. The remaining $2.3 million ($1.3 million net of tax) impairment is primarily related to the adjustment of idle equipment to their fair value based on estimated future cash flows from these assets in accordance with SFAS 144.

We recorded an impairment of long-lived assets of $12.6 million ($7.5 million net of tax) during fiscal year 2003. This primarily consisted of a $10.4 million ($6.4 million net of tax) write-down of certain definite-lived intangible assets, which were tested for impairment following the sale of our Wireless Networking product group. Specifically, we impaired a portion of its customer base and developed technology balances that resulted from the purchase of the net assets of Harris Corporation's semiconductor business. The impairments were measured as the excess of the assets' carrying value over the assets fair value as determined by the present value of cash flows arising from the assets in accordance with SFAS 144. Also included in the aforementioned $12.6 million impairment was a $2.0 million impairment ($1.2 million net of tax) related to the write-off of a prepaid royalty for which we were not going to incorporate the related technology into our products. In accordance with SFAS 144, the write-off reduced the value of the prepaid royalty to zero as we did not expect to realize any future benefit from the asset.

Interest Income/Expense

Interest income decreased to $9.6 million during fiscal year 2003 from $12.1 million during fiscal year 2002. The decrease was due to a decrease in short-term interest rates during fiscal years 2002 and 2003. This was partially offset by our investments in long-term held-to-maturity investments. Interest expense also decreased to $0.6 million from $0.8 million for the same time periods.

Gain (Loss) on Investments

During fiscal year 2002, we recorded a gain of $1.3 million ($0.8 million net of 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 its carrying value.

During fiscal year 2003, we recorded an impairment charge of $13.0 million related to an investment, which is accounted for under the cost method of accounting since we hold less than 20% ownership and can not exercise influence over the investee. 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. The impairment was a result of a significant reorganization at the investee, which we believe, substantially eliminated their chances of making a profit in the future.

During fiscal year 2003, we recognized a $7.2 million gain ($4.7 million net of tax) from the sale of all shares of GlobespanVirata common stock received as part of the sale (15,462,185 shares). The gain was calculated as the net proceeds from the sale less the carrying value of the stock, which was determined as the fair market value during the five-day period including the date of the transaction and the two days preceding and succeeding this date. The GlobespanVirata common stock represented a portion of the consideration paid to us by GlobespanVirata in connection with the sale of our Wireless Networking product group.

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During fiscal year 2003, we recorded a gain of $0.6 million ($0.4 million net of tax) from the collection of previously escrowed funds resulting from the sale of our investment in PowerSmart, Inc. in June 2002. The entire escrow receipt was recorded as a gain as the investment had no carrying value.

Marketable securities consist of shares of STATS 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. As of January 2, 2004 we carried an unrealized gain on the investment of $1.7 million, before taxes. We held 998,816 shares, or approximately 1% of total STATS ChipPAC shares outstanding, at January 2, 2004.

Tax Expense

The tax expense for fiscal year 2003 of 26% differs from the tax benefit for fiscal year 2002 of 20% due primarily to the write off of in-process research and development resulting from the Elantec acquisition during the second quarter of 2002. This difference in rates can also be attributed to higher research and development credits, increased sales in lower tax jurisdictions and a shift from taxable to tax-exempt investments during 2003.

Backlog

We had backlog at January 2, 2004 of $83.6 million compared to $98.1 million at January 3, 2003. The backlog as of January 3, 2003 excludes $33.2 million related to the Wireless Networking product group.

Business Outlook

The conditions external to the Company appear to be improving. We believe that the majority of the inventory adjustments in the supply channel have been concluded. However, the high-end consumer and computing markets generally experience relatively weak demand in the first quarter. As a result, on February 1, 2005, we announced that the expected revenue for the first quarter to be equal to or slightly below the revenue for the fourth quarter of fiscal year 2004.

Restructurings

June 2002

After the acquisition of Elantec, we 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 thereof as they relate to our activities that were conducted prior to the acquisition. As a result of the restructuring, we recorded a charge of $4.7 million ($2.8 million net of tax) in continuing operations during fiscal year 2002. The restructuring plan includes employee termination costs and the elimination of certain sales and marketing activities existing prior to the acquisition. Employee termination costs include involuntary severance payments and outplacement training. Costs incurred to eliminate certain sales and marketing activities include lease cancellation costs and costs associated with the termination of sales representative agreements. As a result of the acquisition with Elantec, 24 of our employees were notified that their employment would be terminated and were apprised of the specifics of their severance benefits. Affected positions included primarily selling employees, of whom 13 were located in the United States, 7 in Europe and 4 in Asia. As of December 31, 2004, all of the affected positions had been terminated. No remaining activities exist with respect to the execution of this plan. We estimated that annual savings of selling, general and administrative costs to be approximately $3.0 million, which includes decreased payroll, healthcare costs, sales office lease expenses, and decreased payments to sales representatives. We believe there has not been significant variances between the expected savings and actual savings.

January 2003

In January 2003, we announced a cost reduction initiative predicated on a 3% reduction in workforce. Due to the adoption of Statement of Financial Accounting Standards No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities", severance related costs are expensed when incurred rather than when they are announced as a part of a restructuring plan.

However, the severance agreements under this restructuring plan entitle terminated employees to benefits upon notification of termination. Accordingly, we expensed $1.3 million ($0.8 million net of tax) in continuing operations during the three quarters

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ended October 3, 2003 within the income statement line item “Restructuring.” The restructuring plan includes employee termination costs, which include involuntary severance payments and outplacement training. In connection with the cost reduction initiative, 22 employees were notified that their employment would be terminated and were apprised of the specifics of their severance benefits. The affected positions included manufacturing, and selling, general and administrative employees; all notified employees were located in the United States. As of December 31, 2004, 100% of the affected positions had been terminated. No remaining activities exist with respect to the execution of this plan.

Savings from the restructuring began to be realized in the form of reduced employee expenses and lower operating costs as each of the specific actions was completed. Specifically, we estimate that annual savings of cost of product sales are approximately $0.2 million. We also estimate that annual savings of research and development expenses are $0.1 million. Finally, we estimate that annual savings of selling, general and administrative expenses are $2.1 million. These savings are in the form of decreased payroll and healthcare costs. We believe there have not been significant variances between the planned savings and actual savings.

August 2003

In August 2003, we announced a restructuring plan that coincided with the sale of the Wireless Networking product group. The restructuring plan included the termination of approximately 8% of the workforce and the closure of three sales office locations in the United States and Europe. The terms of the relevant severance benefits stipulate that an employee is entitled to payments if that employee remains employed with us through his or her termination date. Thus during the quarter ended October 3, 2003 and in accordance with SFAS 146, we recorded charges of $4.1 million ($3.0 million within continuing operations) for the portion of severance benefits and lease payments that we were obligated to pay. Employee termination costs include involuntary severance payments and outplacement training. In connection with the restructuring, approximately 126 employees were notified that their employment would be terminated and were apprised of the specifics of their severance benefits. The affected positions included manufacturing, research and development, and selling, general and administrative employees; 116 of such employees were located in the United States, 6 in Europe and 4 in Asia. As of December 31, 2004, 100% of the affected positions had been terminated. No remaining activities exist with respect to the execution of this plan.

Savings from the restructuring began to be realized as each of the specific actions was completed. Specifically, we estimate that annual savings of cost of product sales are approximately $4.2 million. We also estimate that annual savings of research and development expenses are $1.1 million. Finally, we estimate that annual savings of selling, general and administrative expenses are $2.6 million. These savings are in the form of decreased payroll, healthcare costs and lease expenses. We believe there have not been significant variances between the expected savings and actual savings.

July 2004

In July 2004, we announced a restructuring plan to streamline our manufacturing and support functions. The restructuring plan included the termination of approximately 12% of our workforce. The terms of the relevant severance benefits were outlined in the pre-existing employee benefit policies. As the severance obligation is probable and reasonably estimable and is a vested right attributable to the employees’ service already rendered, we recorded charges within continuing operations of $6.1 million during the quarter ended October 1, 2004 for the severance benefits it was obligated to pay in accordance with the provisions of Statement of Financial Accounting Standards No. 112 (“SFAS 112”), “Employers’ Accounting for Postemployment Benefits.” In connection with the restructuring, approximately 200 employees were notified that their employment would be terminated and were apprised of the specifics of their severance benefits. The affected positions included manufacturing, research and development, and selling, general and administrative employees. All of the employees were located in the United States. As of December 31, 2004, 95% of the affected positions had been terminated.

Savings from the restructuring are being realized as each of the specific actions are completed. Specifically, we estimate that annual savings of cost of product sales are approximately $8.1 million. We also estimate that annual savings of research and development expenses are $2.5 million. Finally, we estimate that annual savings of selling, general and administrative expenses are $4.8 million. These savings are primarily in the form of decreased payroll and healthcare costs. We believe there will not been significant variances between the expected savings and actual savings. The remaining restructuring accrual balance as of December 31, 2004 will be paid over the next 12 months.

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Off-Balance Sheet Arrangements

The following table sets forth our future contractual obligations, all of which are off balance sheet arrangements, as of December 31, 2004 ($ in millions):

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	Payment due by period				
Future minimum operating lease commitments	$ 18.5	$ 5.0	$ 5.9	$ 4.4	$ 3.2
Test and package purchase commitment	See below	See below	See below	—	—
Open capital equipment purchase commitments	$ 1.0	$ 1.0	—	—	—
Open raw material purchase commitments	$ 9.9	$ 9.9	—	—	—
Standby letters of credit	$ 4.2	$ 4.2	—	—	—
Total	$ 33.6	$ 20.1	$ 5.9	$ 4.4	$ 3.2

Our future minimum lease commitments consist primarily of leases for buildings and other real property. Open raw material purchase commitments are comprised of purchase orders for foundry wafers ($8.7 million), silicon wafers ($0.4 million) as well as other miscellaneous expense items. We utilize standby letters of credit primarily for security for workers compensation ($1.5 million), environmental items ($1.3 million), electricity ($0.7 million), as well as for security for our vendors. These standby letters of credit have annual renewals.

We have an agreement in place with STATS ChipPAC pursuant to which they provide us with, among other things, testing and packaging services for fees, subject to certain limits and exceptions, including competitive pricing. The initial term of this agreement expires on June 30, 2005.

We do not have any guarantees that would affect our liquidity, cash flow or financial position. We do not have any relationships with other parties that would have a negative impact on our liquidity, cash flow or financial position.

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 believe that we have the financial resources necessary to meet business requirements for the next 12 months, including the requisite capital expenditures for the expansion or upgrading of worldwide manufacturing capacity, working capital requirements, our dividend program, our treasury share repurchase program and potential future acquisitions or strategic investments. As of December 31, 2004, our total shareholders' equity was $2,439.4 million. Also, we had $523.0 million in cash and short-term securities, as well as $179.6 million in long-term investments.

Net cash provided by operating activities for fiscal year 2004 was $98.4 million. This was primarily due to income from continuing operations ($40.7 million) excluding non-cash charges such as impairments ($26.2 million), amortization of purchased intangibles ($7.4 million), amortization of unearned stock-based compensation ($11.5 million), in-process research and development charges ($31.2 million) and depreciation of long-lived assets ($28.9 million) less $35.6 million in cash used on components of working capital including accounts receivable, inventory, prepaid assets, and accounts payable. Net cash used by investing activities for fiscal year 2004 was $35.7 million. We spent $236.0 million in cash (net of cash received) for the Xicor acquisition during fiscal year 2004. During fiscal year 2004 we received a final payment of $7.9 million for the settlement of the working capital adjustment related to the sale of our Wireless Networking product group. This was offset by tax payments related to the gain on the sale as well as certain other transaction costs. During the same time period, we received $8.7 million in proceeds from the sale of our investment in ChipPAC. Also during fiscal year 2004, we spent $2.6 million and $3.0 million on the acquisition of certain assets of Bitblitz Communications and our cost method investments, respectively. Net cash used by financing activities during fiscal year 2004 was $124.6 million resulting primarily from the purchase of treasury shares and the payment of dividends offset by the proceeds of exercised stock options. We expect to continue this level of share repurchases for the foreseeable future. We changed our per share dividend payout amount as indicated in the relevant section below.

We had a treasury stock repurchase program, which authorized us to repurchase up to $100.0 million in our common stock, of which $82.1 million had been used as of January 2, 2004. This repurchase plan was fully utilized by August 2004. In

September 2004, our Board of Directors authorized another stock repurchase program under which we could repurchase up to $150.0 million of our outstanding common stock, of which $59.8 million had been used as of December 31, 2004.

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We provide for the estimated cost of product warranties at the time revenue is recognized. While the we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our suppliers, the estimated warranty obligation is affected by ongoing product failure rates and material usage costs incurred in correcting a product failure. If actual product failure rates or material usage costs differ from estimates, revisions to the estimated warranty liability would be required. We warrant that our products will be free from defects in material workmanship and possess the electrical characteristics to which we have committed. The warranty period is for one year following shipment. We estimate our warranty reserves based on historical warranty experience. We track returns by type and specifically identify those returns that were based on product failures and similar occurrences. Warranty reserves for the period ended December 31, 2004 and January 2, 2004 were $1.9 million and $1.2 million, respectively.

In certain instances when we sell product groups or assets, we may retain certain liabilities for known exposures and provide indemnification to the buyer with respect to future claims arising from events occurring prior to the sale date, including liabilities for taxes, legal matters, intellectual property infringement, environmental exposures and other obligations. The terms of the indemnifications for tax are generally aligned to the applicable statute of limitations for the jurisdiction in which the divestiture occurred. The terms for environmental indemnities typically do not expire. All other indemnifications are from one to two years. The maximum potential future payments that we could be required to make under these indemnifications are either contractually limited to a specified amount or unlimited. We believe that the maximum potential future payments that we could be required to make under these indemnifications are not determinable at this time, as any future payments would be dependent on the type and extent of the related claims, and all available defenses, which are not estimable.

We generally provide customers with a limited indemnification against intellectual property infringement claims related to our products. We accrue for known indemnification issues if a loss is probable and can be reasonably estimated, and accrue for estimated incurred but unidentified issues based on historical activity. The accrual and the related expense for known issues were not significant during the periods presented.

We have separately classified on the face of the balance sheet our current held-to-maturity 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.

Working Capital

Trade accounts receivable, less the allowance, were $77.9 million at December 31, 2004 compared to $76.7 million at January 2, 2004. Our standard terms range from net 30 to net 60 days. From time to time, management has made exceptions to these standard terms for various business and competitive reasons and extended the terms up to 90 days. During the year, we granted payment terms outside of their standard terms to customers on approximately $6.8 million of shipments. As of December 31, 2004, approximately $6.3 million of these transactions had been collected and $0.5 million were outstanding. The Company has a strong history of collecting payments after the extensions without having to make concessions and therefore recognizes revenue upon shipment in these situations.

Inventories increased 15.4% to $96.5 million at December 31, 2004 from $83.6 million at January 2, 2004, due to the acquisition of Xicor. Our income taxes payable decreased by 33.1%, from $84.0 million at January 2, 2004 to $56.2 million at December 31, 2004 primarily due to tax payments associated with the gain on the sale our Wireless Networking product group and the conclusion of our 1999 and 2000 IRS audits. Litigation accruals decreased $15.1 million from fiscal year 2003 to fiscal year 2004. This was primarily driven by the settlement of our lawsuit with Agere Systems Inc.

Certain reclassifications have been made to move $5.9 million of certain sales reserves into the trade accounts receivable allowances within the January 2, 2004 balance sheet to conform to the current presentation. This change was made to provide more useful information concerning the net realizable value of our trade receivables. The reserves fluctuate from year to year based on items such as the level of inventory at distributors and customer returns as well as sales volume. These reserves increased 17.0% from $5.9 million at January 2, 2004 to $6.9 million at December 31, 2004. This increase was primarily due to the acquisition of Xicor.

Capital Expenditures

Capital expenditures were $6.0 million for fiscal year 2004 and $62.5 million for fiscal year 2003. In 2003 we had invested significantly in our foundry operations, for which we spent $12.9 million during fiscal year 2003. Additional capital expenditures during fiscal year 2003 included the expansion of our fabrication facility in Palm Bay, Florida in order to accommodate the

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transfer of certain production processes from our Findlay, Ohio and Milpitas, California facilities, as well as general manufacturing capacity increases of $41.2 million, research and development capital of $5.7 million and information technology equipment of $2.2 million.

Transactions with Related and Certain Other Parties

As of January 2, 2004, we held a loan receivable within the other assets section in our balance sheet resulting from a loan made to one of our executives who is neither the CFO nor CEO. The loan, which totaled $0.5 million at January 2, 2004, was made by Elantec prior to the merger as part of employment offers. The loan was a recourse loan, and the security was in the form of a second trust deed on the employee's real property. The loan earned interest in excess of the Prime Rate. This loan was repaid in full on August 11, 2004. We currently have no outstanding loans with any officers or directors.

Sterling, an indirect wholly owned subsidiary of Citigroup, Inc., and its affiliates formerly owned a significant number of Intersil's common shares. However, as of December 31, 2004, Sterling held none. Citigroup Venture Capital Equity Partners, which is managed by an indirect wholly owned subsidiary of Citigroup, Inc., indirectly owns an interest in STATS ChipPAC.

We have a contract in place with STATS ChipPAC, in which they provide a specified percentage of our test and package activities subject to certain exceptions. The terms of the contract were the result of arms-length negotiations and are no less favorable than those that could be obtained from non-affiliated parties. This contract expires June 30, 2005. At the time the contract was entered into, Citigroup Venture Capital held a seat on Intersil's Board of Directors and on the Board of Directors of the predecessor to STATS ChipPAC. We had $6.3 million and $4.3 million of trade accounts payable to STATS ChipPAC as of December 31, 2004 and January 2, 2004, respectively. Purchases under this contract during the year ended December 31, 2004 totaled $37.7 million. Although we expect our relationship with STATS ChipPAC to continue after the expiration of this agreement, the services provided under this agreement are available from other vendors.

Critical Accounting Policies

In response to the SEC's financial reporting release, FR-60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies", we have included 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 our financial condition. The five accounting estimation processes discussed below are the allowance for collection losses on trade receivables, reserves for excess or obsolete inventory, distributor reserves, the assessment of recoverability of goodwill and tax valuation allowances. These estimates involve certain assumptions that if incorrect could create an adverse impact on our operations and financial position. Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other policies that we consider key accounting policies; however, these policies do not meet the definition of critical accounting policies, because they do not generally require us to make estimates or judgments that are difficult or subjective.

The allowance for collection losses on trade receivables was $0.6 million on gross trade receivables of $85.4 million at December 31, 2004. The allowance for collection losses on trade receivables was $1.1 million on gross trade receivables of $83.7 million at January 2, 2004. 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. Since the amount that we will actually collect on the receivables outstanding cannot be known until the future, 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. 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 maintain an allowance based on a 48-month rolling average of write-offs, which as of December 31, 2004 equaled 0.2% of our gross trade receivable balance. 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 the accounts that are more likely to have collection problems. We then reserve a portion or all of the customer's balance.

We record our inventories at the lower of standard cost or market as described in the footnotes to the financial statements. As the ultimate market value that we will recoup through sales on our inventory can not be known with exact certainty as of the date of this filing, we rely on past sales experience and future sales forecasts. In analyzing our inventory levels, we classify certain inventory as either excess or obsolete. These classifications are maintained for all classes of inventory, although due to the commonality between our products, raw materials are seldom deemed 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

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for the next 12 months. We reserve 100% of the standard cost of obsolete inventory. It is our policy to scrap obsolete inventory. Reviews are conducted of excess inventory on a monthly basis. 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 typically retain excess inventory until the inventory is sold or re-classified as obsolete. We reserve approximately 40% to 50% of the standard cost of the excess inventory. We believe that 40% to 50% represents the portion we will not be able to recover when we attempt to sell this inventory due to our new product (next generation) introductions and other technological advancements. For all items identified as excess or obsolete during the process described above, management reviews the individual facts and circumstances (i.e. competitive landscape, industry economic conditions, product lifecycles and product cannibalization) specific to that inventory.

Included in the other allowances for trade receivables are reserves for eventual customer credits. This is a combination of distributor, Original Electronic Manufacturer ("OEM") and warranty reserves. Distributor reserves were $2.0 million and $1.2 million at December 31, 2004 and January 2, 2004, respectively. 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 a percentage of unsold inventories they hold. Accordingly, distributor reserves are amounts within our trade receivable allowance section of the balance sheet that estimate the amount of price 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 that will be adjusted in the future cannot be known with certainty as of the date hereof, we rely 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 the 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 limited international distributors whereby the distributors can periodically receive a credit for unsold inventory they hold. Actual price protection and stock rotation changes have historically been within management's expectations. Reserves for our OEM customers totaled $3.1 million and warranty reserves were $1.9 million as of December 31, 2004.

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. We generally recognize sales to North American distributors upon shipment to the end customer. However, the Company began to place certain parts nearing or at the end of their lifecycle on non-cancelable, non-returnable terms ("NCNR") during fiscal year 2004 and as a result revenue is recognized for these sales at the point of shipment to North American distributors.

Pursuant to SFAS 142, we completed an initial impairment review of our goodwill and intangible assets deemed to have indefinite lives as of December 29, 2001 and found no impairment. According to our accounting policy, we also performed an annual review during the fourth quarter of each subsequent year, and in both reviews we found no impairment. We will perform a similar review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. Goodwill is tested under the two-step method for impairment at a level of reporting referred to as a reporting unit. Our reporting units as of December 31, 2004 are the Analog Signal Processing and Power Management product groups because they are each managed by a general manager and have discrete financial information. The first step of the goodwill impairment test, the purpose of which is to identify potential impairment, compares the fair value of each reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test will be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, the purpose of which is to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss will be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill will be its new accounting basis. We have not recognized any impairment losses on goodwill since adopting SFAS 142.

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 liability 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,

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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 December 31, 2004, our net deferred tax asset amounted to $112.0 million compared to $49.4 million at January 2, 2004. This increase is primarily due to deferred tax assets recorded as part of the purchase accounting of Xicor associated with their net operating loss carryforwards ("NOLs"). A detailed analysis was performed related to our ability to utilize these NOLs and we have concluded, as discussed above, that these assets will likely be recovered from future taxable income.

Recent Accounting Pronouncements

In June 2004, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." EITF Issue No. 02-14 addresses whether the equity method of accounting applies when an investor does not have an investment in voting common stock of an investee but exercises significant influence through other means. EITF Issue No. 02-14 states that an investor should only apply the equity method of accounting when it has investments in either common stock or in-substance common stock of a corporation, provided that the investor has the ability to exercise significant influence over the operating and financial policies of the investee. The accounting provisions of EITF Issue No. 02-14 are effective for the first quarter of fiscal 2005. We do not expect the adoption of EITF Issue No. 02-14 to impact our financial statements.

In March 2004, the FASB issued EITF No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" which provides new guidance for assessing impairment losses on debt and equity investments. Additionally, EITF Issue No. 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF Issue No. 03-1; however, the disclosure requirements remain effective and have been adopted for our year ended December 31, 2004. We will evaluate the effect, if any, of EITF Issue No. 03-1 when final guidance is released.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"). This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued for Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The provisions of this statement are effective for interim or annual periods beginning after June 15, 2005. We are currently evaluating the provisions of this revision to determine the impact on our consolidated financial statements. We plan to adopt this in our fiscal quarter ending July 1, 2005. It is, however, expected to have a negative effect on consolidated net income.

In December 2004, the FASB decided to defer the issuance of their final standard on earnings per share (EPS) entitled "Earnings per Share – an Amendment to FAS 128." The final standard will be effective in 2005 and will require retrospective application for all prior periods presented. The significant proposed changes to the EPS computation are changes to the treasury stock method and contingent share guidance for computing year-to-date EPS, removal of the ability to overcome the presumption of share settlement when computing diluted EPS when there is a choice of share or cash settlement and inclusion of mandatorily convertible securities in basic EPS. We are currently evaluating the proposed provisions of this amendment to determine the impact on our consolidated financial statements.

Subsequent Events

On February 1, 2005, our Board of Directors declared a quarterly dividend of $0.04 per share of common stock. Payment of the dividend was made on February 25, 2005 to shareholders of record as of the close of business on February 15, 2005.

In February 2005, we received insurance proceeds of $2.0 million for business interruption losses sustained during the two hurricanes that hit our Florida facility. The proceeds will be recorded in our first quarter of fiscal year 2005.

On March 1, 2005, we announced a reduction in our workforce. The action affected approximately 100 of our production related employees. A restructuring charge, which has not yet been quantified, will be recorded in the first quarter of fiscal year 2005.

Stock Option Disclosures

On November 5, 1999, we 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 our 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 22.3 million shares by the shareholders at the Annual Meeting of Shareholders held May 12, 2004.

Employee and Executive Option Grants

	2002	2003	2004
Net grants during the period as % of outstanding shares (%)	11.3%	2.6%	3.0%
Grants to listed officers* during the period as % of total options granted (%)	20.0%	23.2%	14.3%
Grants to listed officers* during the period as % of outstanding shares (%)	2.3%	0.6%	0.4%
Cumulative options held by listed officers* as % of total options outstanding (%)	21.7%	28.7%	20.6%

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Summary of Option Activity

(Shares in thousands)	Shares Available for Options (#)	Options Outstanding: Number of Shares (#)	Options Outstanding: Weighted Average Exercise Price ($)
Total Shares as of January 3, 2003	5,514	19,344	$ 21.56
Grants	(3,572)	3,572	$ 22.17
Exercises		(2,501)	$ 8.79
Cancellations	2,526	(2,526)	$ 28.86
Additional shares reserved	—	—	n/a
Total Shares as of January 2, 2004	4,468	17,889	$ 22.43
Grants	(4,556)	4,556	$ 19.48
Options granted for acquisitions	—	6,283	$ 9.12
Exercises	—	(2,062)	$ 8.34
Cancellations	2,054	(2,054)	$ 25.99
Additional shares reserved	4,750	—	n/a
Total Shares as of December 31, 2004	6,716	24,612	$ 19.37

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

As of December 31, 2004 (Shares in thousands)	Exercisable: Shares (#)	Exercisable: Wtd. Avg. Exercise Price ($)	Unexercisable: Shares (#)	Unexercisable: Wtd. Avg. Exercise Price ($)	Total: Shares (#)	Total: Wtd. Avg. Exercise Price ($)
In-the-Money	5,270	$ 7.62	2,925	$ 10.45	8,195	$ 8.63
Out-of-the-Money	7,513	$ 28.45	8,904	$ 21.59	16,417	$ 24.73
Total Options Outstanding	12,783	$ 19.86	11,829	$ 18.83	24,612	$ 19.37

The following table provides information concerning stock options granted to the executive officers named in the Summary Compensation Table during fiscal year 2004.

	Number of Securities Underlying Options	Percentage of All Options Granted to All Employees in Period (3)	Exercise Price	Expiration Date (4)	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (5): 5%	10%
Richard M. Beyer	68,750(2)	1.5%	$22.77	4/1/2011	$637,290	$1,485,157
	68,750(2)	1.5%	$19.30	7/1/2011	$540,171	$1,258,829
	68,750(2)	1.5%	$17.29	10/1/2011	$483,915	$1,127,728
Daniel J. Heneghan	30,000(2)	0.7%	$22.77	4/1/2011	$278,090	$ 648,069
	30,000(2)	0.7%	$19.30	7/1/2011	$235,711	$ 549,307
	30,000(2)	0.7%	$17.29	10/1/2011	$211,163	$ 492,100
Alden J. Chauvin	22,500(2)	0.5%	$22.77	4/1/2011	$208,568	$ 247,329
	22,500(2)	0.5%	$19.30	7/1/2011	$176,783	$ 411,980
	22,500(2)	0.5%	$17.29	10/1/2011	$158,372	$ 369,075
Rajeeva Lahri	17,500(2)	0.4%	$22.77	4/1/2011	$162,219	$ 378,040
	17,500(2)	0.4%	$19.30	7/1/2011	$137,498	$ 320,429

	30,000(2)	0.7%	$17.16	9/1/2011	$209,575	$ 488,400
	17,500(2)	0.4%	$17.29	10/1/2011	$123,178	$ 287,058
Mohan R. Maheswaran	6,250(3)	0.1%	$24.83	2/13/2014	$ 97,597	$ 247,329
	27,500(2)	0.6%	$22.77	4/1/2011	$254,916	$ 594,063
	6,250(3)	0.1%	$18.26	5/14/2014	$ 71,773	$ 181,886
	27,500(2)	0.6%	$19.30	7/1/2011	$216,069	$ 503,532
	6,250(3)	0.1%	$15.70	8/13/2014	$ 61,710	$ 156,386
	50,000(2)	1.1%	$17.16	9/1/2011	$349,292	$ 813,999
	27,500(2)	0.6%	$17.29	10/1/2011	$193,566	$ 451,091
Rick E. Furtney (7)	27,500(2)	0.6%	$22.77	4/1/2011	$254,916	$ 594,063
	27,500(2)	0.6%	$19.30	7/1/2011	$216,069	$ 503,532
	652,500					

(1) The fiscal year annual stock option grant is delivered in four installment with each installment treated as a separate grant with its own grant price, vesting schedule and expiration date. For the fiscal year 2004 annual grant, the installment grants were issued on the first trading days of the months of April 2004, July 2004, October 2004 and January 2005. The table reflects only the three installment issued during the fiscal year ended December 31, 2004.

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(2) Each grant vests over a four-year period at a rate of twenty-five percent upon the first anniversary of the grant and 6.25% quarterly thereafter until fully vested.
(3) Each grant vests over a four-year period at a rate of twenty-five percent upon each of the first four anniversary dates of the grant.
(4) A total of 4,555,937 options were granted to Intersil employees under the Intersil 1999 Equity Compensation Plan during the fiscal year ended December 31, 2004.
(5) The options will expire seven years after the grant date, with the exception of certain options granted to Mr. Maheswaran, which expire ten years after the grant date.
(6) 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.
(7) Mr. Furtney's employment with the Company terminated on August 13, 2004.

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 2004:

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
Richard M. Beyer	40,000	$440,800	1,717,318	785,942	$ 237,075	$ 452,925
Daniel J. Heneghan	—	$ —	300,097	337,066	$ 143,984	$ 146,280
Alden J. Chauvin	—	$ —	326,856	154,908	$1,787,108	$ 12,284
Rajeeva Lahri	—	$ —	304,284	176,940	$ 3,150	$ 9,450
Mohan R. Maheswaran	—	$ —	300,814	253,893	$ 15,576	$ 21,837
Rick E. Furtney	—	$ —	420,395	—	$ 180,180	$ —

(1) Reflects net pre-tax amounts determined by subtracting the exercise price from $16.17 per share, the fair market value of common stock at the end of fiscal year 2004.

Shares (in thousands)

Plan Category	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 (1)	2	$ 12.61	—
Elantec, Inc. 1994 Equity Incentive Plan (1)	62	$ 1.39	—
Elantec 1995 Equity Incentive Plan (1)	4,065	$ 20.42	—
Elantec 2001 Equity Incentive Plan (1)	1,049	$ 24.01	—
Xicor 1990 Equity Incentive Plan (1)	821	$ 7.20	—
Xicor 1998 Equity Incentive Plan (1)	2,962	$ 6.42	—
Xicor 2002 Equity Incentive Plan (1)	1,446	$ 17.37	—
1999 Equity Compensation Plan	14,205	$ 22.41	6,716
Equity compensation plans not approved by shareholders	None		
Total	24,612	$ 19.37	6,716

(1) Each of these plans has been acquired by an acquisition by us. Although there are still additional securities to be issued

under these plans, we will not make any additional grants under these plans. All future grants will be made under the 1999 Equity Compensation Plan.

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Item 7A. 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 December 31, 2004, we had open foreign exchange contracts with a notional amount of $1.4 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 fiscal year 2004 were less than $0.2 million. During the fiscal year 2004, we purchased and sold $41.5 million of foreign exchange forward contracts. The derivatives were also recognized on the balance sheet at their fair value, which was nominal, at December 31, 2004. The table below summarizes our foreign exchange contract activity over the past two years ($ in millions):

	Fiscal Year Ended	
	January 2, 2004	December 31, 2004
Gain (loss) on foreign exchange contracts	$ —	$ 0.2
Purchases and sales of foreign exchange contracts	$ 89.4	$ 41.5
Notional amount of open contracts at year end	$ 10.9	$ 1.4
Fair value of open contracts at year end	$ —	—

Our hedging activities provide only limited protection against currency exchange risks. Factors that could impact the effectiveness of our hedging programs include accuracy of sales estimates, volatility of currency markets and the cost and availability of hedging instruments. A 10% adverse change in currency exchange rates for our foreign currency derivatives held at December 31, 2004 will have a negligible impact 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.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements, and the related Notes thereto, of Intersil Corporation and the Independent Registered Certified Public Accountants' Reports are filed as a part of this report.

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INTERSIL CORPORATION

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REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTANTS

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF INTERSIL CORPORATION

We have audited the accompanying consolidated balance sheets of Intersil Corporation as of December 31, 2004 and January 2, 2004, and the related consolidated statements of operations, comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 December 31, 2004 and January 2, 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Intersil Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Fort Lauderdale, Florida
March 14, 2005

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REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTANTS

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF INTERSIL CORPORATION

We have audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Intersil Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Intersil Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, management's assessment that Intersil Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Intersil Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2004 consolidated financial statements and schedule of Intersil Corporation and our report dated March 14, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Fort Lauderdale, Florida
March 14, 2005

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INTERSIL CORPORATION

CONSOLIDATED BALANCE SHEETS

	January 2, 2004	December 31, 2004
	($ in thousands, except share amounts)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 190,457	$ 129,700
Short-term investments	629,076	393,299
Trade receivables, less allowances ($6,988 as of January 2, 2004 and $7,522 as of December 31, 2004)	76,713	77,919
Inventories, net	83,631	96,450
Prepaid expenses and other current assets	10,468	14,649
Deferred income taxes	39,843	43,175
Total Current Assets	1,030,188	755,192
Non-current Assets		
Property, plant and equipment, less accumulated depreciation ($124,738 as of December 31, 2004 and $105,263 as of January 2, 2004)	153,410	101,354
Goodwill and purchased intangibles, less accumulated amortization	1,090,905	1,478,762
Long-term investments	156,730	179,651
Deferred income taxes	9,554	68,860
Related party notes	499	—
Other	7,561	3,751
Total Non-current Assets	1,418,659	1,832,378
Total Assets	$2,448,847	$2,587,570
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade payables	$ 16,544	$ 12,135
Related party payables	4,260	6,266
Retirement plan accruals	3,684	3,806
Accrued compensation	22,398	21,035
Accrued interest and sundry taxes	4,142	2,976
Deferred margin	12,105	11,347
Restructuring and exit costs	5,770	2,476
Litigation accruals	19,149	4,141
Other accrued items	20,881	25,892
Customer deposits	3,841	1,882
Income taxes payable	83,956	56,211
Total Current Liabilities	196,730	148,167
Shareholders' Equity		
Preferred Stock, $0.01 par value, 2,500,000 shares authorized, no shares issued or outstanding	—	—
Series A Junior Participating Preferred Stock, $.01 par value, 25,000 authorized, no shares issued or outstanding	—	—
Class A Common Stock, $.01 par value, voting, convertible; 300,000,000 shares authorized, 139,331,417 shares outstanding at January 2, 2004 and 151,848,424 shares outstanding at December 31, 2004	1,393	1,518
Class B Common Stock, $.01 par value, non-voting, convertible; 300,000,000 shares authorized, no shares outstanding at January 2, 2004 and December 31, 2004	—	—
Additional paid-in capital	2,246,402	2,553,855

Retained earnings	40,898	63,103
Unearned compensation	(8,956)	(22,900)
Accumulated other comprehensive income	2,378	1,494
Treasury shares, at cost; 1,157,100 shares at January 2, 2004 and 8,078,670 shares at December 31, 2004	(29,998)	(157,667)
Total Shareholders' Equity	2,252,117	2,439,403
Total Liabilities and Shareholders' Equity	$2,448,847	$2,587,570

See notes to Consolidated Financial Statements.

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INTERSIL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	January 3, 2003	January 2, 2004	December 31, 2004
	(in thousands, except share and per share amounts)		
Revenue			
Product sales	$419,559	$507,684	$ 535,775
Costs, expenses and other income			
Cost of product sales (a)	200,142	221,074	237,155
Research and development (b)	77,943	91,267	107,430
Selling, general and administrative (b)	89,598	88,274	90,697
Amortization of intangibles	6,783	6,298	7,397
Amortization of unearned compensation	12,510	10,895	10,834
In-process research and development	53,816	—	31,205
Impairment of long–lived assets	5,909	12,576	26,224
Other losses	—	—	3,439
Restructuring	4,744	4,887	6,104
(Gain) on sale of certain operations	—	(1,428)	(901)
Operating income (loss)	(31,886)	73,841	16,191
Interest income, net	11,268	8,958	13,227
Gain (loss) on investments	1,264	(3,443)	3,799
Income (loss) from continuing operations before income taxes	(19,354)	79,356	33,217
Income taxes (benefit) from continuing operations	3,942	20,899	(7,136)
Income (loss) from continuing operations	(23,296)	58,457	40,353
Discontinued operations			
Income (loss) from discontinued operations before income taxes (including gain from disposal of $61,411 during fiscal year 2003)	33,300	19,983	1,092
Income taxes from discontinued operations	14,974	32,603	764
Income (loss) from discontinued operations	18,326	(12,620)	328
Net income (loss)	$ (4,970)	$ 45,837	$ 40,681
Basic income (loss) per share:			
Income (loss) from continuing operations	$ (0.19)	$ 0.42	$ 0.29
Income (loss) from discontinued operations	0.15	(0.09)	—
Net income (loss)	$ (0.04)	$ 0.33	$ 0.29
Diluted income (loss) per share:			
Income (loss) from continuing operations	$ (0.19)	$ 0.41	$ 0.28
Income (loss) from discontinued operations	0.15	(0.09)	—
Net income (loss)	$ (0.04)	$ 0.32	$ 0.28
Weighted average common shares outstanding (in millions):			
Basic	125.6	137.3	140.9

Diluted	125.6	141.3	143.6
(a) Cost of product sales includes the following:			
Amortization of unearned compensation	$ 1,992	$ 1,085	$ 704
(b) Amortization of unearned compensation is excluded from the following:			
Research and development	$ 5,724	$ 4,547	$ 4,942
Selling, general and administrative	6,786	6,348	5,892
	$ 12,510	$ 10,895	$ 10,834

See notes to Consolidated Financial Statements.

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INTERSIL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended		
	January 3, 2003	January 2, 2004	December 31, 2004
	($ in thousands and net of associated tax effects)		
Net income (loss)	$ (4,970)	$ 45,837	$ 40,681
Other comprehensive income (loss):			
Currency translation adjustments	399	1,286	705
Realization of unrealized gains on available-for-sale securities	—	(583)	(1,824)
Unrealized gain (loss) on available-for-sale securities	(3,367)	4,099	—
Comprehensive income (loss)	$ (7,938)	$ 50,639	$ 39,562

See notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	January 3, 2003	January 2, 2004	December 31, 2004
	($ in thousands)		
OPERATING ACTIVITIES:			
Net income (loss) from continuing operations	$ (23,296)	$ 58,457	$ 40,353
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	46,471	49,783	47,870
Provisions for inventory obsolescence	1,870	3,274	3,005
Other loss	—	—	3,439
Write-off of in-process research and development	53,816	—	31,205
Restructuring and impairments	10,653	30,463	32,328
Gain on sale of certain operations	—	(1,428)	(901)
Gain on sale of certain investments	(1,264)	(9,557)	(3,799)
Gain on sale of equipment	—	—	(725)
Deferred income taxes	3,920	(825)	2,622
Net income (loss) from discontinued operations	18,326	(12,620)	328
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on sale of Wireless Networking product group	—	(61,411)	(7,900)
Other adjustments	12,208	36,783	—
Changes in operating assets and liabilities:			
Trade receivables	(22,911)	11,284	3,815
Inventories	6,225	(25,903)	(9,831)
Prepaid expenses and other current assets	3,702	2,849	(5,912)
Trade payables and accrued liabilities	2,391	(33,301)	(23,711)
Income taxes	2,699	69,044	(19,328)
Other	5,319	(1,675)	5,500
Net assets held for sale	(18,729)	(44,100)	—
Net cash provided by operating activities	101,400	71,117	98,358
INVESTING ACTIVITIES:			
Proceeds from sale of short-term investments	5,560	451,016	658,508
Purchases of short-term investments	—	(743,241)	(411,319)
Purchases of held-to-maturity securities	—	(224,505)	(80,592)
Held-to-maturity securities called by issuer	—	80,001	56,175
Proceeds from sale of Wireless Networking product group, net	—	237,513	(23,953)
Proceeds from sale of available-for-sale equity investments	5,264	126,661	8,673
Cash paid for acquired businesses	(24,026)	(3,116)	(1,987)
Purchase of Xicor, net of cash received	—	—	(235,980)
Purchase of Bitblitz Communications	—	—	(2,602)
Purchase of cost method investments	—	—	(3,042)
Property, plant and equipment for discontinued operations	(6,386)	(3,678)	—
Proceeds from sale of property, plant and equipment	—	—	6,422
Purchase of property, plant and equipment	(46,606)	(58,809)	(6,022)
Net cash used in investing activities	(66,194)	(138,158)	(35,719)
FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	9,378	25,285	21,568

Dividends paid	—	(4,159)	(18,476)
Repurchase of treasury shares	(18,565)	(51,582)	(127,670)
Net cash used in financing activities	(9,187)	(30,456)	(124,578)
Effect of exchange rates on cash and cash equivalents	1,690	1,203	1,182
Net increase (decrease) in cash and cash equivalents	27,709	(96,294)	(60,757)
Cash and cash equivalents at the beginning of the period	259,042	286,751	190,457
Cash and cash equivalents at the end of the period	$ 286,751	$ 190,457	$ 129,700
SUPPLEMENTAL DISCLOSURES—NON-CASH ACTIVITIES:			
Additional Paid-In-Capital from Tax Benefit on Exercise on Non-Qualified Stock Options	$ 948	$ 4,890	$ 7,631
Conversion of note receivable to other long-term investments	—	—	$ 1,000
Stock issued in acquisition of Elantec Semiconductor, Inc.	$1,180,358	—	—
Stock issued in acquisition of Xicor, Inc.	—	—	$ 221,454

See Notes to Consolidated Financial Statements.

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INTERSIL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Class A	Class B						
					($ in thousands)			
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)

Company Information

Board of Directors

Gregory L. Williams,
Chairman, Board of Directors

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

Robert Conn, Ph.D., Director
Managing Director
Enterprise Partners Venture Capital

Jim Diller, Director
Previous Chairman of the Board,
Elantec Semiconductor, Inc.

Gary Gist, Director
President and Chief Executive Officer,
Palomar Technological Companies

Jan Peeters, Director
Retired Chairman and Chief Executive Officer
Olameter, Inc.

Robert Pokelwaldt, Director
Retired Chairman and Chief Executive Officer
YORK International Corp.

James A. Urry, Director
Partner, Citicorp Venture Capital Ltd.

Intersil Officers and Key Contacts

Terry Brophy
Vice President, Information Technology

Alden Chauvin
Vice President, Worldwide Sales

Lou DiNardo
Executive Vice President, General Manager,
Power Management Products Group

Susan Hardman
Vice President, Corporate Marketing

Dan Heneghan
Vice President, Chief Financial Officer

Vern Kelley
Vice President, Human Resources

Rajeeva Lahri
Chief Technology Officer and
Vice President, Worldwide Operations

Mohan Maheswaran
Executive Vice President, General Manager
Analog Signal Processing Products Group

Tom Tokos
Vice President, General Counsel
and Corporate Secretary

David Zinsner
Corporate Controller

Intersil Fellows

Sandy Fairgrieve
Barry Harvey
Dr. Larry Pearce
Joe Pierret

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:

Investor Relations
Intersil Corporation
1001 Murphy Ranch Road
Milpitas, CA 95035

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 in 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
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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.

Intersil Corporation

1001 Murphy Ranch Road

Milpitas, CA 95035

888-468-3774

www.intersil.com

email: investor@intersil.com