
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 OR 15(d)
of The Securities Exchange Act of 1934**

**February 12, 2017
Date of Report (Date of earliest event reported)**

ON Semiconductor Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

000-30419
(Commission File Number)

36-3840979
(IRS Employer
Identification No.)

ON Semiconductor Corporation
5005 E. McDowell Road
Phoenix, Arizona
(Address of principal executive offices)

85008
(Zip Code)

(602) 244-6600
(Registrant's telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operation and Financial Condition.

On February 12, 2017, ON Semiconductor Corporation (the “Company”) announced in a news release its financial performance for the fourth quarter and year ended December 31, 2016 and other related material information (“Earnings Release”). A copy of the Earnings Release is attached hereto as Exhibit 99.1 and incorporated herein by reference.

The information under this Item 2.02 of this report, including Exhibit 99.1, is being furnished under Item 2.02 and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (“Exchange Act”), or otherwise subject to liability of that section nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

The below exhibit is furnished as part of this report.

<u>Exhibit No.</u>	<u>Description</u>
99.1	News release for ON Semiconductor Corporation dated February 12, 2017, announcing financial performance for the fourth quarter and year ended December 31, 2016

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ON SEMICONDUCTOR CORPORATION
(Registrant)

Date: February 13, 2017

By: /s/ Bernard Gutmann
Bernard Gutmann
Executive Vice President, Chief Financial
Officer, and Treasurer

EXHIBIT INDEX

The below exhibit is furnished as part of this report.

<u>Exhibit No.</u>	<u>Description</u>
99.1	News release for ON Semiconductor Corporation dated February 12, 2017, announcing financial performance for the fourth quarter and year ended December 31, 2016



ON Semiconductor™

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ON Semiconductor Reports Fourth Quarter and 2016 Annual Results

For the fourth quarter of 2016, highlights include:

- Total revenues of \$1,261.0 million
- GAAP earnings per diluted share of \$0.26
- GAAP gross margin of 30.5 percent, non-GAAP gross margin of 35.2 percent
- GAAP operating margin of 4.4 percent, non-GAAP operating margin of 12.9 percent

For 2016, highlights include:

- Total revenues of \$3,906.9 million
- GAAP earnings per diluted share of \$0.43
- GAAP gross margin of 33.2 percent, non-GAAP gross margin of 35.0 percent
- GAAP operating margin of 6.0 percent, non-GAAP operating margin of 12.3 percent
- Closed acquisition of Fairchild Semiconductor

PHOENIX, Ariz. – Feb. 12, 2017 – ON Semiconductor Corporation (Nasdaq: ON), today announced that total revenues in the fourth quarter of 2016 were \$1,261.0 million, up approximately 33 percent compared to the third quarter of 2016. Fourth quarter revenue includes contribution of approximately \$358 million from our acquisition of Fairchild, which closed on Sept. 19, 2016.

During the fourth quarter of 2016, the company reported GAAP net income of \$110.9 million, or \$0.26 per diluted share. Fourth quarter GAAP income before income taxes was \$18.2 million as compared to \$87.3 million in the third quarter. The fourth quarter 2016 GAAP income before income taxes was negatively impacted by approximately \$113.8 million of special items, the majority of which were related to Fairchild. Fourth quarter 2016 non-GAAP income before income taxes was \$132.0 million, compared to \$107.3 million for the third quarter of 2016. Cash paid for taxes for the fourth quarter was approximately \$8.2 million, as compared to \$6.5 million in the third quarter.

Fourth quarter GAAP gross margin was 30.5 percent, and non-GAAP gross margin in the fourth quarter was 35.2 percent. For the fourth quarter of 2016, GAAP operating margin was 4.4 percent, and non-GAAP operating margin was 12.9 percent.

Adjusted EBITDA for the fourth quarter of 2016 was \$252.0 million. Adjusted EBITDA for the third quarter of 2016 was \$180.2 million.

Total revenues for 2016 were \$3,906.9 million, an increase of approximately 12 percent from \$3,495.8 million in 2015. Total revenue for 2016 included a contribution of approximately \$411 million from Fairchild. During 2016, the company reported GAAP net income of \$182.1 million, or \$0.43 per diluted share. The 2016 GAAP income before income taxes included charges of \$231.5 million from special items, including \$104.8 million of amortization of acquisition related intangible assets. The

remaining charges and special items detail can be found in the attached schedules. During 2015, the company reported GAAP net income of \$206.2 million, or \$0.48 per diluted share. The 2015 GAAP income before income taxes included net charges of \$159.8 million from special items.

The company's GAAP gross margin in 2016 was 33.2 percent. GAAP gross margin in 2016 included a net charge of approximately \$70.7 million from special items. Non-GAAP gross margin in 2016 was 35.0 percent. The company's GAAP gross margin in 2015 was 34.1 percent. GAAP gross margin in 2015 included a net benefit of approximately \$(0.8) million from special items. Non-GAAP gross margin in 2015 was 34.1 percent.

A reconciliation of non-GAAP financial measures used in this release to the company's most directly comparable measures prepared in accordance with U.S. GAAP are set forth in the attached schedules and on our website at <http://www.onsemi.com>. Additional information on revenue by end market, region, distribution channel, business units and share count can be found on the "Investor Relations" section of our website.

"Our results in the fourth quarter provide clear evidence of our strong execution on the integration of Fairchild, and the results also validate our strategic and financial rationale for the acquisition," said Keith Jackson, president and CEO of ON Semiconductor. "We continue to make rapid progress in the integration, and we are currently tracking significantly ahead of schedule in realizing synergies from the combination of Fairchild and ON Semiconductor."

"I am very optimistic about our prospects in 2017 as our momentum in our strategic markets, which include automotive, industrial and communications, continues to grow and our design win pipeline continues to expand driven by our innovative products. With synergies from Fairchild and strong execution and cost control, we are well positioned to drive meaningful growth in our free cash flow in the current year and in following years."

FIRST QUARTER 2017 OUTLOOK

"Based upon product booking trends, backlog levels, and estimated turns levels, we anticipate that total ON Semiconductor revenue will be approximately \$1,215 million to \$1,265 million in the first quarter of 2017," Jackson said. "Backlog levels for the first quarter of 2017 represent approximately 80 to 85 percent of our anticipated first quarter 2017 revenue. The outlook for the first quarter of 2017 includes stock-based compensation expense of approximately \$15 million to \$17 million. Net cash paid for income taxes is expected to be \$16 million to \$20 million."

The following table outlines ON Semiconductor's projected first quarter of 2017 GAAP and non-GAAP outlook.

ON SEMICONDUCTOR Q1 2017 BUSINESS OUTLOOK

	Total ON Semiconductor GAAP	Special Items ***	Total ON Semiconductor Non-GAAP****
Revenue	\$1,215 to \$1,265 million		\$1,215 to \$1,265 million
Gross Margin	33.4% to 34.8%	0.6% to 1.2%	34% to 36%
Operating Expenses	\$302 to \$330 million	\$31 to \$45 million	\$271 to \$285 million
Other Income and Expense (including interest expense), net	\$37 to \$41 million	\$4 to \$6 million*	\$33 to \$35 million
Diluted Share Count **	424 million		424 million

* Convertible Notes, Non-cash Interest Expense is calculated pursuant to FASB's Accounting Standards Codification ("ASC") Topic 470: Debt.

** Diluted share count can vary for, among other things, the actual exercise of options or vesting of restricted stock units, the incremental dilutive shares from the company's convertible senior subordinated notes, and the repurchase or the issuance of stock or convertible notes or the sale of treasury shares. In periods when the quarterly average stock price per share exceeds \$18.50, the non-GAAP diluted share count and non-GAAP net income per share includes the anti-dilutive impact of the company's hedge transactions, issued concurrently with the 1.00% Notes. At an average stock price per share between \$18.50 and \$25.96, the hedging activity offsets the potentially dilutive effect of the 1.00% Notes and warrants.

*** Special items may include: amortization of acquisition-related intangibles; expensing of appraised inventory fair market value step-up; purchased in-process research and development expenses; restructuring, asset impairments and other, net; goodwill impairment charges; gains and losses on debt prepayment; non-cash interest expense; actuarial (gains) losses on pension plans and other pension benefits; and certain other special items, as necessary. These special items could change significantly and are subject to swings from period to period. As a result, we are not able to reasonably estimate and separately present the individual impact of these special items. For this reason, we use a projected range of the aggregate amount of special items in order to calculate our projected non-GAAP operating expense outlook.

**** Regulation G and other provisions of the securities laws regulate the use of financial measures that are not prepared in accordance with GAAP. We believe these non-GAAP measures provide important supplemental information to investors. We use these measures, together with GAAP measures, for internal managerial purposes and as a means to evaluate period-to-period comparisons. However, we do not, and you should not, rely on non-GAAP financial measures alone as measures of our performance. We believe that non-GAAP financial measures reflect an additional way of viewing aspects of our operations that – when taken together with GAAP results and the reconciliations to corresponding GAAP financial measures that we also provide in our releases – provide a more complete understanding of factors and trends affecting our business. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies’ non-GAAP financial measures, even if they have similar names.

The company has provided the following forward-looking non-GAAP financial measures: Operating Expenses and Other Income and Expense (including interest expense), net. The company does not provide reconciliations of these forward-looking non-GAAP financial measures, including the special items detailed above, to the most directly comparable GAAP financial measures because, due to variability and difficulty in making accurate forecasts and projections and/or certain information not being ascertainable or accessible, not all of the information necessary for quantitative reconciliations of these forward-looking non-GAAP financial measures to the most directly comparable GAAP financial measures are available to the company without unreasonable efforts. Consequently, any attempt to disclose such reconciliations would imply a degree of precision that could be confusing or misleading to investors. It is probable that the forward-looking non-GAAP financial measures may be materially different from the corresponding GAAP financial measures.

TELECONFERENCE

ON Semiconductor will host a conference call for the financial community at 9:00 a.m. Eastern Time (EST) on Feb. 13, 2017, to discuss this announcement and ON Semiconductor’s results for the fourth quarter of 2016. The company will also provide a real-time audio webcast of the teleconference on the Investors page of its website at <http://www.onsemi.com>. The webcast replay will be available at this site approximately one hour following the live broadcast and will continue to be available for approximately 30 days following the conference call. Investors and interested parties can also access the conference call through a telephone call by dialing (877) 356-3762 (U.S./Canada) or (262) 558-6155 (International). In order to join this conference call, you will be required to provide the Conference ID Number – which is 25291906.

About ON Semiconductor

ON Semiconductor (Nasdaq: ON) is driving energy efficient innovations, empowering customers to reduce global energy use. The company is a leading supplier of semiconductor-based solutions, offering a comprehensive portfolio of energy efficient power management, analog, sensors, logic, timing, connectivity, discrete, SoC and custom devices. The company’s products help engineers solve their unique design challenges in automotive, communications, computing, consumer, industrial, medical, aerospace and defense applications. ON Semiconductor operates a responsive, reliable, world-class supply chain and quality program, a robust compliance and ethics program, and a network of manufacturing facilities, sales offices and design centers in key markets throughout North America, Europe, and the Asia Pacific regions. For more information, visit <http://www.onsemi.com>.

- Follow @onsemi on Twitter.

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ON Semiconductor and the ON Semiconductor logo are registered trademarks of Semiconductor Components Industries, LLC. All other brand and product names appearing in this document are registered trademarks or trademarks of their respective holders. Although the company references its website in this news release, information on the website is not to be incorporated herein.

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included or incorporated in this document could be deemed

forward-looking statements, particularly statements about the future financial performance of ON Semiconductor. These forward-looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “will,” “intends,” “plans,” “should,” or “anticipates,” or by discussions of strategy, plans or intentions. All forward-looking statements in this document are made based on our current expectations, forecasts, estimates and assumptions, and involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in the forward-looking statements. Among these factors are our revenues and operating performance, economic conditions and markets (including current financial conditions), effects of exchange rate fluctuations, the cyclical nature of the semiconductor industry, changes in demand for our products, changes in inventories at our customers and distributors, technological and product development risks, enforcement and protection of our intellectual property rights and related risks, risks related to the security of our information systems and secured network, availability of raw materials, electricity, gas, water and other supply chain uncertainties, our ability to effectively shift production to other facilities when required in order to maintain supply continuity for our customers, variable demand and the aggressive pricing environment for semiconductor products, our ability to successfully manufacture in increasing volumes on a cost-effective basis and with acceptable quality for our current products, competitor actions including the adverse impact of competitor product announcements, pricing and gross profit pressures, loss of key customers, order cancellations or reduced bookings, changes in manufacturing yields, control of costs and expenses and realization of cost savings and synergies from restructuring activities, significant litigation, risks associated with decisions to expend cash reserves for various uses in accordance with our capital allocation policy such as debt prepayment, stock repurchases or acquisitions rather than to retain such cash for future needs, risks associated with acquisitions and dispositions (including from integrating and consolidating and timely filing financial information with the Securities and Exchange Commission (“SEC”) for acquired businesses and difficulties encountered in accurately predicting the future financial performance of acquired businesses), risks associated with our substantial leverage and restrictive covenants in our debt agreements that may be in place from time to time, risks associated with our worldwide operations, including foreign employment and labor matters associated with unions and collective bargaining arrangements, as well as man-made and/or natural disasters affecting our operations and finances/financials, the threat or occurrence of international armed conflict and terrorist activities both in the United States and internationally, risks and costs associated with increased and new regulation of corporate governance and disclosure standards, risks related to new legal requirements and risks involving environmental or other governmental regulation. Additional factors that could cause results to differ materially from those projected in the forward-looking statements are contained in ON Semiconductor’s 2015 Annual Report on Form 10-K filed with the SEC on February 24, 2016 (“2015 Form 10-K”), Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other of our filings with the SEC. You should carefully consider the trends, risks and uncertainties described in this document, the 2015 Form 10-K and other reports filed with or furnished to the SEC before making any investment decision with respect to our securities. If any of these trends, risks or uncertainties actually occurs or continues, our business, financial condition or operating results could be materially adversely affected, the trading prices of our securities could decline, and you could lose all or part of your investment. The company will report final results for the fourth quarter 2016 and the fiscal year ended December 31, 2016 in its annual report on Form 10-K to be filed with the SEC. The company’s fourth quarter 2016 results could change during the time between this announcement and the filing of its annual report on Form 10-K with SEC. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information, except as may be required by law. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

The Company’s purchase price allocation related to the Fairchild acquisition is preliminary, as such the related amortization of intangibles and the expensing of inventory-step-up are subject to change as the company finalizes this allocation.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share data)

	Quarter Ended			Year Ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Revenues	\$ 1,261.0	\$ 950.9	\$ 840.3	\$ 3,906.9	\$ 3,495.8
Cost of revenues (exclusive of amortization shown below)	876.5	621.9	560.4	2,610.0	2,302.6
Gross profit	384.5	329.0	279.9	1,296.9	1,193.2
Gross margin	30.5%	34.6%	33.3%	33.2%	34.1%
Operating expenses:					
Research and development	139.8	111.5	91.0	452.3	396.7
Selling and marketing	79.4	56.7	48.3	238.0	204.3
General and administrative	72.2	67.6	45.7	230.3	182.3
Amortization of acquisition-related intangible assets	32.9	24.7	34.6	104.8	135.7
Restructuring, asset impairments and other, net	4.5	21.8	4.8	33.2	9.3
Goodwill and intangible asset impairment	—	—	—	2.2	3.8
Total operating expenses	328.8	282.3	224.4	1,060.8	932.1
Operating income	55.7	46.7	55.5	236.1	261.1
Other income (expense), net:					
Interest expense	(40.9)	(46.7)	(14.9)	(145.3)	(49.7)
Interest income	0.7	1.4	0.3	4.5	1.1
Gain on divestiture of business	—	92.2	—	92.2	—
Loss on modification or extinguishment of debt	—	(6.3)	—	(6.3)	(0.4)
Other	2.7	—	(0.2)	(0.6)	7.7
Other expense, net	(37.5)	40.6	(14.8)	(55.5)	(41.3)
Income before income taxes	18.2	87.3	40.7	180.6	219.8
Income tax benefit (provision)	93.5	(76.7)	14.3	3.9	(10.8)
Net income	111.7	10.6	55.0	184.5	209.0
Less: Net income attributable to non-controlling interest	(0.8)	(0.5)	(0.9)	(2.4)	(2.8)
Net income attributable to ON Semiconductor Corporation	\$ 110.9	\$ 10.1	\$ 54.1	\$ 182.1	\$ 206.2
Net income per common share attributable to ON Semiconductor Corporation:					
Basic	\$ 0.27	\$ 0.02	\$ 0.13	\$ 0.44	\$ 0.49
Diluted	\$ 0.26	\$ 0.02	\$ 0.13	\$ 0.43	\$ 0.48
Weighted average common shares outstanding:					
Basic	417.3	415.8	412.5	415.2	421.2
Diluted	426.9	419.8	416.9	420.0	427.8

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEET

(in millions)

	December 31, 2016	September 30, 2016	December 31, 2015
Assets			
Cash and cash equivalents	\$ 1,028.1	\$ 880.5	\$ 617.6
Receivables, net	629.8	675.1	426.4
Inventories	1,030.2	1,083.1	750.4
Other current assets	181.0	163.7	97.1
Total current assets	2,869.1	2,802.4	1,891.5
Property, plant and equipment, net	2,159.1	2,074.6	1,274.1
Goodwill	930.1	1,000.8	270.6
Intangible assets, net	756.7	778.1	325.8
Deferred tax assets	138.9	50.8	44.5
Other assets	70.5	84.2	63.1
Total assets	<u>\$ 6,924.4</u>	<u>\$ 6,790.9</u>	<u>\$ 3,869.6</u>
Liabilities, Mezzanine Equity, Non-Controlling Interest and Stockholders' Equity			
Accounts payable	\$ 434.0	\$ 407.5	\$ 337.7
Accrued expenses	405.0	429.2	246.2
Deferred income on sales to distributors	109.8	120.6	112.0
Current portion of long-term debt	553.8	540.6	543.4
Total current liabilities	1,502.6	1,497.9	1,239.3
Long-term debt	3,068.5	3,095.7	850.5
Deferred tax liabilities	288.9	248.2	17.3
Other long-term liabilities	186.5	195.1	130.6
Total liabilities	<u>5,046.5</u>	<u>5,036.9</u>	<u>2,237.7</u>
Redeemable 2.625% Notes, Series B	32.9	—	—
Common stock	5.4	5.4	5.3
Additional paid-in capital	3,473.3	3,478.1	3,420.3
Accumulated other comprehensive loss	(50.2)	(38.6)	(42.3)
Accumulated deficit	(527.3)	(638.2)	(709.4)
Less: Treasury stock, at cost	<u>(1,078.0)</u>	<u>(1,076.1)</u>	<u>(1,065.7)</u>
Total ON Semiconductor Corporation stockholders' equity	1,823.2	1,730.6	1,608.2
Non-controlling interest in consolidated subsidiary	21.8	23.4	23.7
Total stockholders' equity	<u>1,845.0</u>	<u>1,754.0</u>	<u>1,631.9</u>
Total liabilities mezzanine equity and stockholders' equity	<u>\$ 6,924.4</u>	<u>\$ 6,790.9</u>	<u>\$ 3,869.6</u>

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

UNAUDITED RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA* AND

NET CASH PROVIDED BY OPERATING ACTIVITIES

(in millions)

	Quarter Ended			Year Ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Net income	\$ 111.7	\$ 10.6	\$ 55.0	\$ 184.5	\$ 209.0
Adjusted for:					
Restructuring, asset impairments and other, net	4.5	21.8	4.8	33.2	9.3
Goodwill and intangible asset impairment	—	—	—	2.2	3.8
Interest expense	40.9	46.7	14.9	145.3	49.7
Interest income	(0.7)	(1.4)	(0.3)	(4.5)	(1.1)
Loss on modification or extinguishment of debt	—	6.3	—	6.3	0.4
Gain on sale of available-for-sale securities	—	—	—	—	(5.4)
Income tax (benefit) provision	(93.5)	76.7	(14.3)	(3.9)	10.8
Net income attributable to non-controlling interest	(0.8)	(0.5)	(0.9)	(2.4)	(2.8)
Depreciation and amortization	120.0	83.8	89.8	364.1	357.6
Amortization of fair market value step-up of inventory	55.6	11.9	—	67.5	—
Gain on divestiture of business	—	(92.2)	—	(92.2)	—
Adjustment to contingent consideration	0.8	(1.3)	—	(0.5)	—
Actuarial (gains) losses on pension plans and other pension benefits	10.0	—	(5.0)	10.0	(5.0)
Third party acquisition related costs	3.5	17.8	3.3	25.8	3.5
Adjusted EBITDA*	252.0	180.2	147.3	735.4	629.8
Increase (decrease):					
Restructuring, asset impairments and other, net	(4.5)	(21.8)	(4.8)	(33.2)	(9.3)
Interest expense	(40.9)	(46.7)	(14.9)	(145.3)	(49.7)
Interest income	0.7	1.4	0.3	4.5	1.1
Gain on sale of available-for-sale securities	—	—	—	—	5.4
Income tax benefit (provision)	93.5	(76.7)	14.3	3.9	(10.8)
Net income attributable to non-controlling interest	0.8	0.5	0.9	2.4	2.8
Actuarial gains (losses) on pension plans and other pension benefits	(10.0)	—	5.0	(10.0)	5.0
Amortization of fair market value step-up of inventory	(55.6)	(11.9)	—	(67.5)	—
Third party acquisition related costs	(3.5)	(17.8)	(3.3)	(25.8)	(3.5)
Loss (gain) on sale or disposal of fixed assets	0.9	0.4	0.2	1.5	(3.9)
Amortization of debt discount and issuance costs	4.6	3.4	0.9	12.0	2.8
Write-down of excess inventories	26.1	4.4	14.0	66.2	52.4
Payments for term debt modification	—	(26.4)	—	(26.4)	—
Adjustment to contingent consideration	(0.8)	1.3	—	0.5	—
Non-cash asset impairment charges	0.5	—	—	0.5	0.2
Non-cash share-based compensation expense	14.2	14.2	10.6	56.1	46.9
Non-cash interest on convertible notes	6.4	6.6	6.3	26.0	17.5
Change in deferred taxes	(103.6)	62.3	(9.3)	(38.1)	(9.2)
Other	(1.9)	0.7	2.7	(4.6)	(2.8)
Changes in operating assets and liabilities	50.5	58.6	(13.0)	23.1	(204.1)
Net cash provided by operating activities	\$ 229.4	\$ 132.7	\$ 157.2	\$ 581.2	\$ 470.6

Cash flows from investing activities:					
Purchases of property, plant and equipment	\$ (49.9)	\$ (35.9)	\$ (66.0)	\$ (210.7)	\$ (270.8)
Proceeds from divestiture of business	—	104.0	—	104.0	—
Proceeds from sales of property, plant and equipment	—	—	0.7	0.4	11.1
Deposits utilized for purchases of property, plant and equipment	(3.1)	(1.3)	(1.6)	(2.2)	(1.4)
Purchase of business, net of cash acquired	(6.8)	(2,277.2)	(21.2)	(2,284.0)	(31.3)
Cash placed in escrow	—	—	21.2	(67.7)	20.4
Cash received from escrow	—	23.8	—	23.8	—
Proceeds from sale of available-for-sale securities	—	—	—	—	5.5
Proceeds from sale of held-to-maturity securities	—	—	0.8	—	2.8
Purchases of held-to-maturity securities	—	—	—	—	(0.8)
Other	—	0.8	—	1.8	—
Net cash used in investing activities	<u>\$ (59.8)</u>	<u>\$ (2,185.8)</u>	<u>\$ (66.1)</u>	<u>\$ (2,434.6)</u>	<u>\$ (264.5)</u>
Cash flows from financing activities:					
Proceeds from issuance of common stock under the employee stock purchase plan	\$ 4.1	\$ 3.9	\$ 3.7	\$ 15.0	\$ 14.6
Proceeds from exercise of stock options	9.8	2.9	2.0	14.9	27.1
Payments of tax withholding for restricted shares	(1.9)	(2.2)	(2.3)	(12.3)	(14.7)
Repurchase of common stock	—	—	(20.0)	—	(348.2)
Proceeds from debt issuance	5.0	2,572.4	8.4	2,586.9	816.5
Purchases of convertible note hedges	—	—	—	—	(108.9)
Proceeds from issuance of warrants	—	—	—	—	52.0
Payments of debt issuance and other financing costs	(0.3)	(3.4)	—	(6.8)	(20.4)
Repayment of long-term debt	(26.2)	(223.6)	(17.1)	(313.8)	(495.5)
Payment of capital lease obligations	(2.7)	(2.8)	(4.8)	(14.9)	(22.3)
Dividend to non-controlling shareholder of consolidated subsidiary	(2.4)	(1.9)	—	(4.3)	—
Net cash provided by (used in) financing activities	<u>\$ (14.6)</u>	<u>\$ 2,345.3</u>	<u>\$ (30.1)</u>	<u>\$ 2,264.7</u>	<u>\$ (99.8)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>\$ (7.4)</u>	<u>\$ 0.2</u>	<u>\$ (0.2)</u>	<u>\$ (0.8)</u>	<u>\$ (0.4)</u>
Net increase in cash and cash equivalents	\$ 147.6	\$ 292.4	\$ 60.8	\$ 410.5	\$ 105.9
Cash and cash equivalents, beginning of period	<u>\$ 880.5</u>	<u>\$ 588.1</u>	<u>\$ 556.8</u>	<u>\$ 617.6</u>	<u>\$ 511.7</u>
Cash and cash equivalents, end of period	<u>\$ 1,028.1</u>	<u>\$ 880.5</u>	<u>\$ 617.6</u>	<u>\$ 1,028.1</u>	<u>\$ 617.6</u>

* Adjusted EBITDA represents net income before interest expense, interest income, provision for income taxes, depreciation and amortization expense and special items. We use the adjusted EBITDA measure for internal managerial evaluation purposes, as a means to evaluate period-to-period comparisons and as a performance metric for the vesting/releasing of certain of our performance-based equity awards. Adjusted EBITDA is a non-GAAP financial measure. Regulation G and other provisions of the securities laws regulate the use of financial measures that are not prepared in accordance with generally accepted accounting principles. We believe this measure provides important supplemental information to investors. However, we do not, and you should not, rely on non-GAAP financial measures alone as measures of our performance.

We believe that non-GAAP financial measures reflect an additional way of viewing aspects of our operations that – when taken together with GAAP results and the reconciliations to corresponding GAAP financial measures that we also provide in our press releases – provide a more complete understanding of factors and trends affecting our business. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with non-GAAP financial measures used by our company or other companies, even if they have similar names.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

ANALYSIS OF GAAP VERSUS NON-GAAP DISCLOSURES

(in millions, except per share and percentage data)

	Quarter Ended			Year Ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Reconciliation of GAAP gross profit to non-GAAP gross profit:					
GAAP gross profit	\$ 384.5	\$ 329.0	\$ 279.9	\$ 1,296.9	\$ 1,193.2
Special items:					
a) Actuarial (gains) losses on pension plans and other pension benefits	3.2	—	(0.8)	3.2	(0.8)
b) Expensing of appraised inventory at fair market value step up	55.6	11.9	—	67.5	—
Total special items	58.8	11.9	(0.8)	70.7	(0.8)
Non-GAAP gross profit	\$ 443.3	\$ 340.9	\$ 279.1	\$ 1,367.6	\$ 1,192.4
Reconciliation of GAAP gross margin to non-GAAP gross margin:					
GAAP gross margin	30.5%	34.6%	33.3%	33.2%	34.1%
Special items:					
a) Actuarial (gains) losses on pension plans and other pension benefits	0.3%	— %	(0.1)%	0.1%	— %
b) Expensing of appraised inventory at fair market value step up	4.4%	1.3%	— %	1.7%	— %
Total special items	4.7%	1.3%	(0.1)%	1.8%	— %
Non-GAAP gross margin	35.2%	35.9%	33.2%	35.0%	34.1%
Reconciliation of GAAP operating expenses to non-GAAP operating expenses:					
GAAP operating expenses	\$ 328.8	\$ 282.3	\$ 224.4	\$ 1,060.8	\$ 932.1
Special items:					
a) Amortization of acquisition related intangible assets	(32.9)	(24.7)	(34.6)	(104.8)	(135.7)
b) Actuarial gains (losses) on pension plans and other pension benefits	(6.8)	—	4.2	(6.8)	4.2
c) Restructuring, asset impairments and other, net	(4.5)	(21.8)	(4.8)	(33.2)	(9.3)
d) Goodwill and intangible asset impairments	—	—	—	(2.2)	(3.8)
e) Third party acquisition related costs	(3.5)	(17.8)	(3.3)	(25.8)	(3.5)
Total special items	(47.7)	(64.3)	(38.5)	(172.8)	(148.1)
Non-GAAP operating expenses	\$ 281.1	\$ 218.0	\$ 185.9	\$ 888.0	\$ 784.0

Reconciliation of GAAP operating income to non-GAAP operating income:

GAAP operating income	\$ 55.7	\$ 46.7	\$55.5	\$236.1	\$261.1
Special items:					
a) Actuarial (gains) losses on pension plans and other pension benefits (cost of revenues)	3.2	—	(0.8)	3.2	(0.8)
b) Expensing of appraised inventory at fair market value step up	55.6	11.9	—	67.5	—
c) Amortization of acquisition related intangible assets	32.9	24.7	34.6	104.8	135.7
d) Actuarial (gains) losses on pension plans and other pension benefits (operating expenses)	6.8	—	(4.2)	6.8	(4.2)
e) Restructuring, asset impairments and other, net	4.5	21.8	4.8	33.2	9.3
f) Goodwill and intangible asset impairments	—	—	—	2.2	3.8
g) Third party acquisition related costs	3.5	17.8	3.3	25.8	3.5
Total special items above Total special items	<u>106.5</u>	<u>76.2</u>	<u>37.7</u>	<u>243.5</u>	<u>147.3</u>
Non-GAAP operating income	<u>\$162.2</u>	<u>\$122.9</u>	<u>\$93.2</u>	<u>\$479.6</u>	<u>\$408.4</u>

Reconciliation of GAAP operating margin to non-GAAP operating margin**(operating income / revenues):**

GAAP operating margin	<u>4.4%</u>	<u>4.9%</u>	<u>6.6%</u>	<u>6.0%</u>	<u>7.5%</u>
Special items:					
a) Actuarial (gains) losses on pension plans and other pension benefits (cost of revenues)	0.3%	— %	(0.1)%	0.1%	— %
b) Expensing of appraised inventory at fair market value step up	4.4%	1.3%	— %	1.7%	— %
c) Amortization of acquisition related intangible assets	2.6%	2.6%	4.1%	2.7%	3.9%
d) Actuarial (gains) losses on pension plans and other pension benefits (operating expenses)	0.5%	— %	(0.5)%	0.2%	(0.1)%
e) Restructuring, asset impairments and other, net	0.4%	2.3%	0.6%	0.8%	0.3%
f) Goodwill and intangible asset impairments	— %	— %	— %	0.1%	0.1%
g) Third party acquisition related costs	0.3%	1.9%	0.4%	0.7%	0.1%
Total special items	<u>8.5%</u>	<u>8.0%</u>	<u>4.5%</u>	<u>6.3%</u>	<u>4.2%</u>
Non-GAAP operating margin	<u>12.9%</u>	<u>12.9%</u>	<u>11.1%</u>	<u>12.3%</u>	<u>11.7%</u>

Reconciliation of GAAP income before income taxes to non-GAAP income before income taxes:

GAAP income before income taxes	18.2	\$ 87.3	\$40.7	\$180.6	\$219.8
Special items:					
a) Actuarial losses (gains) on pension plans and other pension benefits (cost of revenues)	3.2	—	(0.8)	3.2	(0.8)
b) Expensing of appraised inventory at fair market value step up	55.6	11.9	—	67.5	—
c) Amortization of acquisition related intangible assets (operating expenses)	32.9	24.7	34.6	104.8	135.7
d) Actuarial losses (gains) on pension plans and other pension benefits (operating expenses)	6.8	—	(4.2)	6.8	(4.2)
e) Restructuring, asset impairments and other, net	4.5	21.8	4.8	33.2	9.3
f) Goodwill and intangible asset impairments	—	—	—	2.2	3.8
g) Third party acquisition related costs	3.5	17.8	3.3	25.8	3.5
h) Loss on modification or extinguishment of debt	—	6.3	—	6.3	0.4
i) Gain on sale of available-for-sale securities	—	—	—	—	(5.4)
j) Non-cash interest on convertible notes	6.5	6.6	6.3	26.1	17.5
k) Pre-acquisition interest expense, net	—	24.4	—	48.3	—
l) Adjustment to contingent consideration	0.8	(1.3)	—	(0.5)	—
m) Gain on divestiture of business	—	(92.2)	—	(92.2)	—
Total special items	113.8	20.0	44.0	231.5	159.8
Non-GAAP income before income taxes	\$132.0	\$107.3	\$84.7	\$412.1	\$379.6

Certain of the amounts in the above table may not total due to rounding of individual amounts.

Total share-based compensation expense, related to the company's stock options, restricted stock units, stock grant awards and employee stock purchase plan is included below.

	Quarter Ended			Year Ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Cost of revenues	\$ 2.0	\$ 2.0	\$ 1.9	\$ 8.0	\$ 7.7
Research and development	2.8	2.9	2.2	11.1	9.2
Selling and marketing	2.6	2.6	1.8	9.8	8.5
General and administrative	6.8	6.7	4.7	27.2	21.5
Total share-based compensation expense	\$ 14.2	\$ 14.2	\$ 10.6	\$ 56.1	\$ 46.9

Non-GAAP Measures

To supplement the consolidated financial results prepared under GAAP, ON Semiconductor uses non-GAAP measures which are adjusted from the most directly comparable GAAP results to exclude items related to the amortization of intangible assets, amortization of acquisition-related intangibles, expensing of appraised inventory fair market value step-up, inventory valuation adjustments, purchased in-process research and development expenses, restructuring, asset impairments and other, net, goodwill impairment charges, gains and losses on debt prepayment, non-cash interest expense, actuarial (gains) losses on pension plans and other pension benefits, third party acquisition related costs, and certain other special items, as necessary. Management does not consider these charges in evaluating the core operational activities of ON Semiconductor. Management uses these non-GAAP measures internally to make strategic decisions, forecast future results and evaluate ON Semiconductor's current performance. In addition, we believe that most analysts covering ON Semiconductor use the non-GAAP measures as well. Given management's and other relevant use of these non-GAAP measures, ON Semiconductor believes these measures

are important to investors in understanding ON Semiconductor's current and future operating results as seen through the eyes of management. In addition, management believes these non-GAAP measures are useful to investors in enabling them to better assess changes in ON Semiconductor's core business across different time periods. These non-GAAP measures are not in accordance with or an alternative to GAAP financial data and may be different from non-GAAP measures used by other companies. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures, even if they have similar names.

Non-GAAP Gross Profit and Gross Margin

The use of non-GAAP gross profit and gross margin allows management to evaluate, among other things, the gross margin and gross profit of the company's core businesses and trends across different reporting periods on a consistent basis, independent of non-cash items including, generally speaking, expensing of appraised inventory fair market value step-up and amortization of intangible assets. In addition, it is an important component of management's internal performance measurement and incentive and reward process as it is used to assess the current and historical financial results of the business, for strategic decision making, preparing budgets, obtaining targets, and forecasting future results. Management presents this non-GAAP financial measure to enable investors and analysts to evaluate our revenue generation performance relative to the direct costs of revenue of ON Semiconductor's core businesses.

Non-GAAP Operating Profit and Operating Margin

The use of non-GAAP operating profit and operating margin allows management to evaluate, among other things, the operating margin and operating profit of the company's core businesses and trends across different reporting periods on a consistent basis, independent of non-cash items including, generally speaking, expensing of appraised inventory fair market value step-up, amortization of intangible assets, third party acquisition related costs, and restructuring charges. In addition, it is an important component of management's internal performance measurement and incentive and reward process as it is used to assess the current and historical financial results of the business, for strategic decision making, preparing budgets, obtaining targets, and forecasting future results. Management presents this non-GAAP financial measure to enable investors and analysts to evaluate our revenue generation performance relative to the direct costs of operations of ON Semiconductor's core businesses.

Non-GAAP Income Before Income Taxes

The use of non-GAAP income before income taxes allows management to evaluate the operating results of ON Semiconductor's core businesses and trends across different reporting periods on a consistent basis, independent of non-cash items including, generally, the amortization of intangible assets, amortization of acquisition-related intangibles, expensing of appraised inventory fair market value step-up, purchased in-process research and development expenses, restructuring, asset impairments and other, net, goodwill impairment charges, gains and losses on debt prepayment, non-cash interest expense, actuarial (gains) losses on pension plans and other pension benefits, third party acquisition related costs, and certain other special items, as necessary. In addition, these items are important components of management's internal performance measurement and incentive and reward process, as they are used to assess the current and historical financial results of the business, for strategic decision making, preparing budgets, setting targets, and forecasting future results. Management presents these non-GAAP financial measures to enable investors and analysts to understand the results of operations of ON Semiconductor's core businesses and, to the extent comparable, to compare our results of operations on a more consistent basis against that of other companies in our industry.

Diluted Share Count

In periods when the quarterly average stock price per share exceeds \$18.50, the Non-GAAP diluted share count includes the anti-dilutive impact of the company's hedge transactions, issued concurrently with the 1.00% Notes. At an average stock price per share between \$18.50 and \$25.96, the hedging activity offsets the potentially dilutive effect of the 1.00% Notes and warrants.