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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 30, 2018

Or

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

For the transition period from __________ to __________

(Commission File Number) 000-30419

ON SEMICONDUCTOR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**36-3840979**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5005 E. McDowell Road
Phoenix, AZ 85008
(602) 244-6600
(Address, zip code and telephone number, including area code, of principal executive offices)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

If emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the issuer’s class of common stock as of the close of business on April 25, 2018:

Title of Each Class	Number of Shares
Common Stock, par value $0.01 per share	427,562,866

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
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(See the glossary of selected terms immediately following this table of contents for definitions of certain abbreviated terms)

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GLOSSARY OF SELECTED ABBREVIATED TERMS*

Abbreviated Term	Defined Term
1.00% Notes	1.00% Convertible Senior Notes due 2020
1.625% Notes	1.625% Convertible Senior Notes due 2023
Amended and Restated SIP	ON Semiconductor Corporation Amended and Restated Stock Incentive Plan, as amended
AMIS	AMIS Holdings, Inc.
Aptina	Aptina, Inc.
ASU	Accounting Standards Update
ASC	Accounting Standards Codification
ASIC	Application Specific Integrated Circuit
AXSEM	AXSEM A.G.
DSP	Digital signal processing
ESPP	ON Semiconductor Corporation 2000 Employee Stock Purchase Plan, as amended
Exchange Act	Securities Exchange Act of 1934, as amended
Fairchild	Fairchild Semiconductor International, Inc.
FASB	Financial Accounting Standards Board
Freescale	Freescale Semiconductor, Inc.
IoT	Internet-of-Things
IP	Intellectual property
IPRD	In-Process Research and Development
LED	Light-emitting diode
LIBOR	A base rate per annum equal to the London Interbank Offered Rate as administered by ICE Benchmark Administration
MCU	Microcontroller Unit
Motorola	Motorola Inc.
OEM	Original equipment manufacturers
RSU	Restricted Stock Unit
SANYO Electric	SANYO Electric Co., Ltd.
SCI LLC	Semiconductor Components Industries, LLC, a wholly-owned subsidiary of ON Semiconductor Corporation
SEC	Securities and Exchange Commission
SoC	System on chip
Securities Act	Securities Act of 1933, as amended
SMBC	Sumitomo Mitsui Banking Corporation
WSTS	World Semiconductor Trade Statistics

* Terms used, but not defined, within the body of the Form 10-Q are defined in this Glossary.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)
(unaudited)

	March 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 924.9	$ 949.2
Receivables, net	696.9	701.5
Inventories	1,160.0	1,089.5
Other current assets	185.2	193.0
Total current assets	2,967.0	2,933.2
Property, plant and equipment, net	2,336.4	2,279.1
Goodwill	916.9	916.9
Intangible assets, net	600.9	628.3
Deferred tax assets	333.3	339.1
Other assets	108.6	98.5
Total assets	$ 7,263.1	$ 7,195.1
Liabilities, Non-Controlling Interest and Stockholders’ Equity		
Accounts payable	$ 612.0	$ 548.0
Accrued expenses	585.8	612.8
Current portion of long-term debt	747.2	248.1
Total current liabilities	1,945.0	1,408.9
Long-term debt	2,084.4	2,703.7
Deferred tax liabilities	57.1	55.1
Other long-term liabilities	225.1	226.4
Total liabilities	4,311.6	4,394.1
Commitments and contingencies (Note 10)		
ON Semiconductor Corporation stockholders’ equity:		
Common stock ($0.01 par value, 1,250,000,000 and 1,250,000,000 shares authorized, 554,961,297 and 551,873,115 issued, 427,459,255 and 425,118,194 outstanding, respectively)	5.5	5.5
Additional paid-in capital	3,615.5	3,593.5
Accumulated other comprehensive loss	(34.4)	(40.6)
Accumulated earnings	491.7	351.5
Less: Treasury stock, at cost: 127,502,042 and 126,754,921 shares, respectively	(1,149.9)	(1,131.1)
Total ON Semiconductor Corporation stockholders’ equity	2,928.4	2,778.8
Non-controlling interest in consolidated subsidiary	23.1	22.2
Total stockholders’ equity	2,951.5	2,801.0
Total liabilities and stockholders’ equity	$ 7,263.1	$ 7,195.1

See accompanying notes to consolidated financial statements

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in millions, except per share data)
(unaudited)

	Quarter Ended	
	March 30, 2018	March 31, 2017
Revenues	$1,377.6	$1,436.7
Cost of revenues (exclusive of amortization shown below)	860.2	933.6
Gross profit	517.4	503.1
Operating expenses:		
Research and development	155.2	140.1
Selling and marketing	77.8	77.5
General and administrative	70.9	68.4
Amortization of acquisition-related intangible assets	27.4	29.1
Restructuring, asset impairments and other, net	0.4	0.5
Intangible asset impairment	—	4.4
Total operating expenses	331.7	320.0
Operating income	185.7	183.1
Other (expense) income, net:		
Interest expense	(31.5)	(38.4)
Interest income	0.9	0.6
Loss on debt refinancing and prepayment	—	(26.2)
Licensing income	3.8	—
Other expense	(2.0)	(4.1)
Other (expense) income, net	(28.8)	(68.1)
Income before income taxes	156.9	115.0
Income tax provision	(16.4)	(36.3)
Net income	140.5	78.7
Less: Net income attributable to non-controlling interest	(0.9)	(0.5)
Net income attributable to ON Semiconductor Corporation	$ 139.6	$ 78.2
Comprehensive income, net of tax:		
Net income	$ 140.5	$ 78.7
Foreign currency translation adjustments	2.4	6.3
Effects of cash flow hedges	3.8	0.8
Other comprehensive income, net of tax of $1.0 and $0.6, respectively	6.2	7.1
Comprehensive income	146.7	85.8
Comprehensive income attributable to non-controlling interest	(0.9)	(0.5)
Comprehensive income attributable to ON Semiconductor Corporation	$ 145.8	$ 85.3
Net income per common share attributable to ON Semiconductor Corporation:		
Basic	$ 0.33	$ 0.19
Diluted	$ 0.31	$ 0.18
Weighted-average common shares outstanding:		
Basic	425.9	419.8
Diluted	444.2	425.8

See accompanying notes to consolidated financial statements

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Quarter Ended	
	March 30, 2018	March 31, 2017
Cash flows from operating activities:		
Net income	$ 140.5	$ 78.7
Adjustments to reconcile net income to net cash provided by operating activities and other adjustments:		
Depreciation and amortization	119.9	114.3
Loss on sale or disposal of fixed assets	1.3	2.9
Loss on debt refinancing and prepayment	—	26.2
Amortization of debt discount and issuance costs	3.3	4.5
Payments for term debt modification	—	(2.4)
Write-down of excess inventories	9.4	14.2
Non-cash share-based compensation expense	18.4	15.1
Non-cash interest on convertible notes	8.7	4.7
Non-cash intangible asset impairment charges	—	4.4
Change in deferred taxes	7.5	36.2
Other	(1.2)	1.5
Changes in assets and liabilities:		
Receivables	(24.4)	(45.2)
Inventories	(73.3)	4.9
Other assets	(1.4)	(17.7)
Accounts payable	24.4	9.2
Accrued expenses	(9.5)	63.1
Deferred income on sales to distributors	—	(107.3)
Other long-term liabilities	2.9	1.2
Net cash provided by operating activities	226.5	208.5
Cash flows from investing activities:		
Purchases of property, plant and equipment	(99.5)	(52.7)
Proceeds from sales of property, plant and equipment	5.6	0.2
Deposits made for purchases of property, plant and equipment	(11.6)	(0.2)
Purchase of business, net of cash acquired	—	(0.8)
Purchases of held-to-maturity securities	—	(1.6)
Net cash used in investing activities	(105.5)	(55.1)
Cash flows from financing activities:		
Proceeds from issuance of common stock under the ESPP	—	5.9
Proceeds from exercise of stock options	3.6	7.5
Payments of tax withholding for restricted shares	(18.8)	(13.0)
Repurchase of common stock	—	(25.0)
Proceeds from debt issuance	5.3	689.0
Repayment of long-term debt	(135.9)	(1,054.4)
Purchase of convertible note hedges	—	(144.7)
Proceeds from issuance of warrants	—	85.2
Payment of capital lease obligations	(1.1)	(5.4)
Net cash used in financing activities	(146.9)	(454.9)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1.6	2.3
Net decrease in cash, cash equivalents and restricted cash	(24.3)	(299.2)
Cash, cash equivalents and restricted cash, beginning of period (Note 15)	966.6	1,045.8
Cash, cash equivalents and restricted cash, end of period (Note 15)	$ 942.3	$ 746.6

See accompanying notes to consolidated financial statements

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1: Background and Basis of Presentation

ON Semiconductor Corporation, together with its wholly-owned and majority-owned subsidiaries ("ON Semiconductor" or the "Company"), uses a thirteen-week fiscal quarter accounting period for the first three fiscal quarters of each year, with the first quarter of 2018 having ended on March 30, 2018, and each fiscal year ending on December 31. The quarters ended March 30, 2018 and March 31, 2017 contained 89 and 90 days, respectively. As of March 30, 2018, the Company was organized into the following three operating and reporting segments: Power Solutions Group, Analog Solutions Group and Image Sensor Group. Additional details on the Company's reportable segments are included in Note 2: ''Revenue and Segment Information.''

The accompanying unaudited financial statements as of and for the quarter ended March 30, 2018 have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for unaudited interim financial information. Accordingly, the unaudited financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. The balance sheet as of December 31, 2017 was derived from the Company's audited financial statements but does not include all disclosures required by GAAP for audited financial statements. In the opinion of the Company's management, the interim information includes all adjustments, which includes normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 21, 2018 (the "2017 Form 10-K"). Financial results for interim periods are not necessarily indicative of the results of operations that may be expected for a full fiscal year.

Adoption of New Revenue Standard

On January 1, 2018, as required, the Company adopted ASU No. 2014-09 - Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), ASU No. 2015-14 - Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ("ASU 2015-14"), ASU No. 2016-08 - Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations ("ASU 2016-08"), ASU No. 2016-10 - Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10"), ASU No. 2016-12 - Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12") and ASU No. 2016-20 - Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers" ("ASU 2016-20") (collectively "the New Revenue Standard"). To conform to the New Revenue Standard, the Company modified its revenue recognition policy as described below. See Note 3: "Recent Accounting Pronouncements" for more information.

Change in Accounting Policy

On January 1, 2018, the Company adopted the New Revenue Standard using the modified retrospective method, applying the guidance to all open contracts and recognized the cumulative effect adjustment of $2.1 million to retained earnings and accrued expenses as of that date. The comparative financial information has not been restated and continues to be presented under the accounting standards in effect for the respective periods. The Company applied the practical expedient and has not disclosed the revenue allocated to future shipments of partially completed contracts.

Substantially all of the Company's revenue continues to be recognized following the transfer of control of the products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contracts. Under the New Revenue Standard, revenue from certain product development agreements which were previously deferred as delivered, are now recognized over time.

During the quarter ended March 30, 2018, revenue increased by $1.8 million due to the impact of the adoption of the New Revenue Standard.

Revenue Recognition Policy

In anticipation of the adoption of the New Revenue Standard, during the quarter ended March 31, 2017, the Company developed its internal systems, processes and controls to enable it to make the estimates required by the New Revenue Standard on sales to its distributors, and was able to reliably estimate upfront the effects of returns and allowances and record revenues at the time of sales to these distributors. As a result of this change, the Company recognized an additional $155.1 million in revenue during the first quarter of 2017, which resulted in an increase of $59.0 million to income before income taxes.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(unaudited)

The Company generates revenue from sales of its semiconductor products to OEMs, electronic manufacturing service providers and distributors. The Company also generates revenue, to a much lesser extent, from product development agreements and manufacturing services provided to customers. The Company recognizes revenue when it satisfies a performance obligation in an amount reflecting the consideration to which it expects to be entitled. For sales agreements, the Company has identified the promise to transfer products, each of which are distinct, to be the performance obligation. For product development agreements, the Company has identified the completion of a service defined in the agreement to be the performance obligation. The Company applies a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations in the contract and (5) recognizing revenue when the performance obligation is satisfied. Substantially all of the Company’s revenue is recognized at the time control of the products transfers to the customer.

Sales agreements with customers are renewable periodically and contain terms and conditions with respect to payment, delivery, warranty and supply, but typically do not require minimum purchase commitments. In the absence of a sales agreement, the Company’s standard terms and conditions apply. The Company considers the customer purchase orders, governed by sales agreements or the Company’s standard terms and conditions, to be the contract with the customer. The Company evaluates certain factors including the customer’s ability to pay (or credit risk).

Most of the Company’s OEM customers negotiate pricing terms on an annual basis, while the electronic manufacturer service providers and distributors generally negotiate pricing terms on a quarterly basis. Pricing terms on product development agreements are negotiated at the beginning of a project. The Company allocates the transaction price to each distinct product based on its relative stand-alone selling price.

In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. The Company’s OEM customers do not have the right to return products, other than pursuant to the provisions of the Company’s standard warranty. Sales to distributors, however, are typically made pursuant to agreements that provide return rights with respect to discontinued or slow-moving products, referred to as stock rotation. Sales to distributors can also be subject to price adjustment on certain products, primarily for distributors with ship and credit rights. Although payment terms vary, most distributor agreements require payment within 30 days. In addition, the Company offers cash discounts to certain customers for payments received within an agreed upon time, generally ten days after shipment.

The Company recognizes revenue when it satisfies a performance obligation. The Company recognizes revenue from sales agreements upon transferring control of a product to the customer. This typically occurs when products are shipped or delivered, depending on the delivery terms, or when products that are consigned at customer locations are consumed. The Company recognizes revenue from product development agreements over time based on the cost-to-cost method. Revenue recognized during the quarter ended March 30, 2018 for sales agreements was $1,372.8 million and for product development agreements was $4.8 million. Sales returns and allowances are estimated based on historical experience. Provisions for discounts and rebates to customers, estimated returns and allowances, ship and credit claims and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. For returns, the Company recognizes a related asset for the right to recover returned products with a corresponding reduction to cost of goods sold. The Company reviews warranty and related claims activity and records provisions, as necessary. The Company records a reserve for cash discounts as a reduction to accounts receivable and a reduction to revenues, based on the experience with each customer.

Frequently, the Company receives orders with multiple delivery dates that may extend across reporting periods. Since each delivery constitutes a performance obligation, the Company allocates the transaction price of the contract to each performance obligation based on the stand-alone selling price of the products. The Company invoices the customer for each delivery upon shipment and recognizes revenues in accordance with delivery terms. As scheduled delivery dates are within one year, revenue allocated to future shipments of partially completed contracts are not disclosed.

The Company has elected to record freight and handling costs associated with outbound freight after control over a product has transferred to a customer as a fulfillment cost and include it in cost of revenues. Taxes assessed by government authorities on revenue-producing transactions, including value-added and excise taxes, are presented on a net basis (excluded from revenues) in the Consolidated Statements of Operations and Comprehensive Income.

The Company generally warrants that products sold to its customers will, at the time of shipment, be free from defects in workmanship and materials and conform to specifications. The Company’s standard warranty extends for a period of two years from the date of delivery, except in the case of Image Sensor products, which are warrantied for one year from the date of delivery. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with its sales, and records them as a component of the cost of revenues

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management evaluates these estimates and judgments on an ongoing basis and bases its estimates on experience, current and expected future conditions, third-party evaluations and various other assumptions that management believes are reasonable under the circumstances. Significant estimates have been used by management in conjunction with the following: (i) estimates of future payouts for customer incentives and estimates of amounts subject to allowances, returns and warranties; (ii) measurement of valuation allowances relating to inventories and trade receivables; (iii) future cash flows used to assess and test for impairment of goodwill and indefinite-lived intangible assets and long-lived assets, if applicable; (iv) assumptions surrounding future pension obligations; (v) fair values of share-based compensation and of financial instruments (including derivative financial instruments); (vi) measurement of valuation allowances against deferred tax assets, evaluations of uncertain tax positions and the impact of U.S. tax reform; and (vii) estimates and assumptions used in connection with business combinations. Actual results may differ from the estimates and assumptions used in the consolidated financial statements and related notes.

Foreign Currencies

Most of the Company’s foreign subsidiaries conduct business primarily in U.S. dollars and, as a result, utilize the dollar as their functional currency. For the remeasurement of financial statements of these subsidiaries, assets and liabilities in foreign currencies that are receivable or payable in cash are remeasured at current exchange rates, while inventories and other non-monetary assets in foreign currencies are remeasured at historical rates. Gains and losses resulting from the remeasurement of such financial statements are included in the operating results, as are gains and losses incurred on foreign currency transactions.

Historically, the majority of the Company’s Japanese subsidiaries utilized Japanese Yen as their functional currency. The assets and liabilities of these subsidiaries are translated at current exchange rates, while revenues and expenses are translated at the average rates in effect for the period. The related translation gains and losses are included in other comprehensive income or loss within the Consolidated Statements of Operations and Comprehensive Income. As a result of an analysis which took into account the economic indicators of these subsidiaries from a long-term perspective, the Company changed the functional currency for some of these subsidiaries from Japanese Yen to U.S. dollars from January 1, 2018.

Note 2: Revenue and Segment Information

The Company is organized into three reportable segments consisting of the Power Solutions Group, the Analog Solutions Group and the Image Sensor Group. Each of the Company’s major product lines has been examined and assigned to a reportable segment based on the Company’s operating strategy. Because many products are sold into different end-markets, the total revenue reported for a segment is not indicative of actual sales in the end-market associated with that segment, but rather is the sum of the revenue from the product lines assigned to that segment. These segments represent the Company’s view of the business and as such are used to evaluate progress of major initiatives and allocation of resources.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(unaudited)

The following table disaggregates the Company’s segment revenue into geographic locations and sales channels (in millions):

	Reportable Segments Quarter Ended March 30, 2018			
	Power Solutions Group	Analog Solutions Group	Image Sensor Group	Total
Geographic Location				
United States	$ 94.5	$ 78.2	$ 26.5	$ 199.2
United Kingdom	118.6	79.1	35.9	233.6
Hong Kong	205.2	122.5	33.2	360.9
Singapore	228.4	161.2	43.3	432.9
Other	45.9	55.2	49.9	151.0
Total	$ 692.6	$ 496.2	$188.8	$1,377.6
Sales Channel				
OEM	$ 198.1	$ 207.6	$ 64.5	$ 470.2
Distributor	452.6	254.1	114.9	821.6
Electronic Manufacturing Service Provider	41.9	34.5	9.4	85.8
Total	$ 692.6	$ 496.2	$188.8	$1,377.6

Revenues and gross profit for the Company’s reportable segments were as follows (in millions):

	Power Solutions Group	Analog Solutions Group	Image Sensor Group	Total
For the quarter ended March 30, 2018:				
Revenues from external customers	$ 692.6	$ 496.2	$188.8	$1,377.6
Gross profit	$ 239.2	$ 206.8	$ 81.7	$ 527.7
For the quarter ended March 31, 2017:				
Revenues from external customers	$ 743.8	$ 503.6	$189.3	$1,436.7
Gross profit	$ 244.0	$ 209.3	$ 67.4	$ 520.7

Gross profit shown above and below is exclusive of the amortization of acquisition-related intangible assets. Reconciliations of segment gross profit to consolidated gross profit are as follows (in millions):

	Quarter Ended	
	March 30, 2018	March 31, 2017
Gross profit for reportable segments	$ 527.7	$ 520.7
Less: unallocated manufacturing costs	(10.3)	(17.6)
Consolidated gross profit	$ 517.4	$ 503.1

The Company’s consolidated assets are not specifically ascribed to its individual reporting segments. Rather, assets used in operations are generally shared across the Company’s reporting segments.

The Company operates in various geographic locations. Sales to unaffiliated customers have little correlation with the location of manufacturers. It is, therefore, not meaningful to present operating profit by geographical location.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(unaudited)

Property, plant and equipment, net by geographic location, is summarized as follows (in millions):

	As of	
	March 30, 2018	December 31, 2017
United States	$ 546.9	$ 547.9
Korea	392.8	380.5
Malaysia	229.1	230.0
Philippines	456.0	439.5
China	255.1	246.0
Other	456.5	435.2
	$ 2,336.4	$ 2,279.1

For the quarters ended March 30, 2018 and March 31, 2017, no single customer, including any distributor, accounted for 10% or more of the Company's total consolidated revenues.

Note 3: Recent Accounting Pronouncements

ASUs Adopted:

New Revenue Standard

The Company adopted the New Revenue Standard on a modified retrospective basis on January 1, 2018. The cumulative-effect adjustment related to the timing of revenue recognition on certain product development agreements recorded to beginning retained earnings as of January 1, 2018 was $2.1 million. The Company expects the ongoing impact of the New Revenue Standard to be immaterial to the consolidated financial statements.

ASU No. 2017-09 - Scope of Modification Accounting ("ASU 2017-09")

In May 2017, the FASB issued ASU No. 2017-09 to reduce diversity in practice and provide clarity regarding existing guidance in ASC 718, "Stock Compensation." The amendments clarify that an entity should apply modification accounting in response to a change in the terms and conditions of an entity's share-based payment awards unless three newly specified criteria are met. The amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted ASU 2017-09 during the first quarter of 2018. The adoption of this standard did not have a material impact on the consolidated financial statements.

ASU No 2017-07 - Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07")

In March 2017, the FASB issued ASU 2017-07 primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The guidance will require the net benefit cost to be split in the income statement. The service cost component will be included in operating income. The other components, including amortization of past service costs or credits, and settlement and curtailments amounts, will be reported separately outside of operating income. The amendment is effective for fiscal years beginning after December 15, 2017. The Company adopted ASU 2017-07 during the first quarter of 2018, applying the standard retrospectively to all periods presented. The adoption of this standard did not have a material impact on the current period or prior period consolidated financial statements. See Note 6: "Balance Sheet Information" for further information on the adoption of ASU 2017-07.

ASU No. 2016-18 - Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force) ("ASU 2016-18")

In November 2016, the FASB issued ASU 2016-18, which requires entities to include in their cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU does not define the terms "restricted cash" and "restricted cash equivalents." The amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted ASU 2016-18 during the first quarter of 2018, applying the standard retrospectively to all periods presented. The adoption of this standard did not have a material impact on the current period or prior period consolidated financial statements. See Note 15: "Supplemental Disclosures" for further information on the adoption of ASU 2016-18.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(unaudited)

ASU No. 2016-16 - Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”)

In October 2016, the FASB issued ASU 2016-16, which eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller’s tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer’s jurisdiction would also be recognized at the time of the transfer. The new guidance does not apply to intra-entity transfers of inventory. The income tax consequences from the sale of inventory from one member of a consolidated entity to another will continue to be deferred until the inventory is sold to a third party. The amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted ASU 2016-16 during the first quarter of 2018. The adoption of this standard did not have a material impact on the consolidated financial statements.

ASU No. 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”)

In August 2016, the FASB issued ASU 2016-15, which changes how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted ASU 2016-15 during the first quarter of 2018. The adoption of this standard did not have a material impact on the consolidated financial statements.

ASUs Pending Adoption:

ASU No. 2017-12 - Derivatives and Hedging (topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”)

In August 2017, the FASB issued ASU No. 2017-12 to better align hedge accounting with risk management strategies, and as a result, more hedging strategies will be eligible for hedge accounting. Public business entities will have until the end of the first quarter in which a hedge is designated to perform an initial assessment of a hedge’s effectiveness. After initial qualification, the new guidance permits a qualitative effectiveness assessment for certain hedges instead of a quantitative test if the company can reasonably support an expectation of high effectiveness throughout the term of the hedge. An initial quantitative test to establish that the hedge relationship is highly effective is still required. The amendments are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company does not anticipate the adoption of ASU 2017-12 will have a material impact on its consolidated financial statements.

ASU No. 2016-02 - Leases (Topic 842) (“ASU 2016-02”)

In February 2016, the FASB issued ASU 2016-02, which amends the accounting treatment for leases. Lessees (for capital and operating leases) and lessors (for sales-type leases, direct financing leases, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company expects the adoption of this standard will result in a significant component of the Company’s future minimum lease obligations as disclosed in Note 10: “Commitments and Contingencies” to be included on its Consolidated Balance Sheets. The Company is currently reviewing its service agreements and other arrangements to evaluate whether they meet the definition of a lease under ASU 2016-02 and what additional impact that the adoption of ASU 2016-02 may have on its consolidated financial statements.

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Note 4: Goodwill and Intangible Assets

Goodwill

The following table summarizes goodwill by reportable segment (in millions):

	As of March 30, 2018			As of December 31, 2017		
	Goodwill	Accumulated Impairment Losses	Carrying Value	Goodwill	Accumulated Impairment Losses	Carrying Value
Reportable Segment:						
Power Solutions Group	$ 432.2	$ (28.6)	$ 403.6	$ 432.2	$ (28.6)	$ 403.6
Analog Solutions Group	836.7	(418.9)	417.8	836.7	(418.9)	417.8
Image Sensor Group	95.5	—	95.5	95.5	—	95.5
	$1,364.4	$ (447.5)	$ 916.9	$1,364.4	$ (447.5)	$ 916.9

There was no change in the balance of goodwill between December 31, 2017 and March 30, 2018.

Goodwill is tested for impairment annually on the first day of the fourth quarter or more frequently if events or changes in circumstances (each, a "triggering event") would more likely than not reduce the carrying value of goodwill below its fair value. Management did not identify any triggering events through March 30, 2018 that would require an interim impairment analysis.

Intangible Assets

Intangible assets, net, were as follows (in millions):

	As of March 30, 2018			
	Original Cost	Accumulated Amortization	Accumulated Impairment Losses	Carrying Value
Intellectual property	$ 13.9	$ (12.0)	$ (0.4)	$ 1.5
Customer relationships	555.9	(336.1)	(20.1)	199.7
Patents	43.7	(27.1)	(13.7)	2.9
Developed technology	657.6	(297.2)	(2.6)	357.8
Trademarks	17.2	(12.6)	(1.1)	3.5
Backlog	3.3	(3.3)	—	—
Favorable Leases	1.7	(1.7)	—	—
IPRD	54.5	—	(19.0)	35.5
Total intangibles	$1,347.8	$ (690.0)	$ (56.9)	$ 600.9

	As of December 31, 2017			
	Original Cost	Accumulated Amortization	Accumulated Impairment Losses	Carrying Value
Intellectual property	$ 13.9	$ (11.8)	$ (0.4)	$ 1.7
Customer relationships	555.9	(328.5)	(20.1)	207.3
Patents	43.7	(26.8)	(13.7)	3.2
Developed technology	657.6	(278.2)	(2.6)	376.8
Trademarks	17.2	(12.4)	(1.1)	3.7
Backlog	3.3	(3.3)	—	—
Favorable Leases	1.7	(1.6)	—	0.1
IPRD	54.5	—	(19.0)	35.5
Total intangibles	$1,347.8	$ (662.6)	$ (56.9)	$ 628.3

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Amortization expense for acquisition-related intangible assets amounted to $27.4 million and $29.1 million for the quarters ended March 30, 2018 and March 31, 2017, respectively. Amortization expense for intangible assets, with the exception of the $35.5 million of IPRD assets that will be amortized once the corresponding projects have been completed, is expected to be as follows for remainder of 2018, each of the next four years, and thereafter (in millions):

Period	Amortization Expense
Remainder of 2018	$ 81.7
2019	99.8
2020	84.9
2021	70.0
2022	57.9
Thereafter	171.1
Total amortization expense	$ 565.4

Note 5: Restructuring, Asset Impairments and Other, Net

Summarized activity included in the "Restructuring, asset impairments and other, net" caption on the Company's Consolidated Statements of Operations and Comprehensive Income is as follows (in millions):

	Restructuring	Asset Impairments	Other (1)	Total
Quarter ended March 30, 2018				
Other	—	—	0.4	0.4
Total	$ —	$ —	$ 0.4	$0.4

(1) Includes amounts related to immaterial adjustments which are not considered to be significant.

A summary of changes in accrued restructuring charges are as follows (in millions):

	As of December 31, 2017	Charges	Usage	As of March 30, 2018
Employee separation charges	$ 1.9	$ 0.4	$(1.2)	$ 1.1
Costs to exit	0.2	—	—	0.2
Total	$ 2.1	$ 0.4	$(1.2)	$ 1.3

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Note 6: Balance Sheet Information

Certain significant amounts included in the Company's Consolidated Balance Sheets consist of the following (in millions):

	As of	
	March 30, 2018	December 31, 2017
Receivables, net:		
Accounts receivable	$ 700.3	$ 704.2
Less: Allowance for doubtful accounts	(3.4)	(2.7)
	$ 696.9	$ 701.5
Inventories:		
Raw materials	$ 119.9	$ 117.7
Work in process	711.9	660.8
Finished goods	328.2	311.0
	$ 1,160.0	$ 1,089.5
Property, plant and equipment, net:		
Land	$ 148.5	$ 148.4
Buildings	751.7	744.0
Machinery and equipment	3,582.7	3,454.6
Total property, plant and equipment	4,482.9	4,347.0
Less: Accumulated depreciation	(2,146.5)	(2,067.9)
	$ 2,336.4	$ 2,279.1
Accrued expenses:		
Accrued payroll and related benefits	$ 174.3	$ 201.8
Sales related reserves	284.4	280.0
Income taxes payable	13.6	29.9
Other	113.5	101.1
	$ 585.8	$ 612.8

Assets classified as held-for-sale, consisting of properties, are required to be recorded at the lower of carrying value or fair value less costs to sell. The carrying value of these assets as of March 30, 2018 and December 31, 2017 was $1.4 million and $5.3 million, respectively, and is reported as other current assets on the Company's Consolidated Balance Sheets. The Company sold the assets held-for-sale at December 31, 2017 in January 2018 for $5.5 million.

Warranty Reserves

The activity related to the Company's warranty reserves was as follows (in millions):

	Quarter Ended	
	March 30, 2018	March 31, 2017
Beginning Balance	$ 8.0	$ 8.8
Provision	(0.4)	0.8
Usage	(0.2)	(1.8)
Ending Balance	$ 7.4	$ 7.8

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Defined Benefit Plans

The Company maintains defined benefit plans for certain of its foreign subsidiaries. The Company recognizes the aggregate amount of all overfunded plans as assets and the aggregate amount of all underfunded plans as liabilities in its financial statements. As of March 30, 2018, the total accrued pension liability for underfunded plans was $115.0 million, of which the current portion of $0.3 million was classified as accrued expenses. As of December 31, 2017, the total accrued pension liability for underfunded plans was $109.3 million, of which the current portion of $0.2 million was classified as accrued expenses.

The components of the Company's net periodic pension expense are as follows (in millions):

	Quarter Ended	
	March 30, 2018	March 31, 2017
Service cost	$ 2.5	$ 2.3
Interest cost	1.2	1.0
Expected return on plan assets	(1.6)	(1.3)
Total net periodic pension cost	$ 2.1	$ 2.0

With the retrospective adoption of ASU 2017-07, service cost component is included in operating income while the other components, including interest cost and expected return on plan assets, are reported separately outside of operating income. The Company utilized the practical expedient to estimate the amounts for the comparative periods using the information previously disclosed in the notes to the consolidated financial statements in the 2017 Form 10-K. The service cost is allocated between the cost of revenues, research and development, selling and marketing and general and administrative line items, while the other components are included in other expense in the Consolidated Statements of Operations and Comprehensive Income.

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Note 7: Long-Term Debt

The Company's long-term debt consists of the following (annualized interest rates, in millions):

	As of	
	March 30, 2018	December 31, 2017
Amended Credit Agreement:		
Revolving Credit Facility due 2021, interest payable monthly at 3.38% and 3.07%, respectively	$ 400.0	$ 400.0
Term Loan "B" Facility due 2023, interest payable monthly at 3.88% and 3.57%, respectively	1,204.5	1,204.5
1.00% Notes due 2020 (1)	690.0	690.0
1.625% Notes due 2023 (2)	575.0	575.0
Note payable to SMBC due 2016 through 2018, interest payable quarterly at 0% and 3.09%, respectively (3)	—	122.7
U.S. real estate mortgages payable monthly through 2019 at an average rate of 3.12% and 3.12%, respectively (4)	33.1	34.2
Philippine term loans due 2017 through 2020, interest payable quarterly at 4.15% and 3.73%, respectively (7)	29.4	32.4
Loan with Singapore bank, interest payable weekly at 3.13% and 2.80%, respectively (6) (10)	25.0	25.0
Loan with Hong Kong bank, interest payable weekly at 3.13% and 2.78%, respectively (6) (10)	25.0	25.0
Malaysia revolving line of credit, interest payable quarterly at 3.76% and 3.14%, respectively (7) (10)	25.0	25.0
Vietnam revolving line of credit, interest payable quarterly at an average rate of 3.14% and 2.88%, respectively (7) (10)	22.5	24.9
Loan with Philippine bank due 2017 through 2019, interest payable quarterly at 4.78% and 4.20%, respectively (5)	8.2	9.4
Loan with Japanese bank due 2017 through 2020, interest payable quarterly at 1.10% (7)	2.6	2.7
Capital lease obligations	3.2	4.2
Gross long-term debt, including current maturities	3,043.5	3,175.0
Less: Debt discount (8)	(169.5)	(178.8)
Less: Debt issuance costs (9)	(42.4)	(44.4)
Net long-term debt, including current maturities	2,831.6	2,951.8
Less: Current maturities	(747.2)	(248.1)
Net long-term debt	2,084.4	2,703.7

(1) Interest is payable on June 1 and December 1 of each year at 1.00% annually.
(2) Interest is payable on April 15 and October 15 of each year at 1.625% annually.
(3) This loan represented SCI LLC's non-collateralized loan with SMBC, which was guaranteed by the Company.
(4) Debt arrangement collateralized by real estate, including certain of the Company's facilities in California, Oregon and Idaho.
(5) Debt collateralized by equipment.
(6) Debt arrangement collateralized by certain accounts receivable.
(7) Non-collateralized debt arrangement.
(8) Debt discount of $57.0 million and $61.9 million for the 1.00% Notes, $100.5 million and $104.3 million for the 1.625% Notes and $12.0 million and $12.5 million for the Term Loan "B" Facility as of March 30, 2018 and December 31, 2017, respectively.
(9) Debt issuance costs of $8.0 million and $8.6 million for the 1.00% Notes, $9.6 million and $10.0 million for the 1.625% Notes and $24.8 million and $25.8 million for the Term Loan "B" Facility as of March 30, 2018 and December 31, 2017, respectively.
(10) The Company has historically renewed these arrangements annually.

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Expected maturities relating to the Company's long-term debt (including current maturities) as of March 30, 2018 are as follows (in millions):

Period	Expected Maturities
Remainder of 2018	$ 806.4
2019	47.7
2020	9.8
2021	400.0
2022	—
Thereafter	1,779.6
Total	$3,043.5

1.00% Notes due 2020

On June 8, 2015, the Company completed a private placement of $690.0 million of its 1.00% Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 1.00% Notes are governed by an indenture between the Company, as the issuer, the guarantors named therein and Wells Fargo Bank, National Association, as trustee (the "1.00% Indenture"). The 1.00% Notes are convertible by holders into cash and shares of the Company's common stock at a conversion rate of 54.0643 shares of common stock per $1,000 principal amount of notes (subject to adjustment in certain events), which is equivalent to an initial conversion price of $18.50 per share of common stock. The Company will settle conversion of all 1.00% Notes validly tendered for conversion in cash, shares of the Company's common stock or a combination of cash and shares to be determined by the Company. Holders may convert their 1.00% Notes only under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending on September 30, 2015, if the last reported sale price of common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (ii) during the five business-day period immediately following any five consecutive trading-day period in which the trading price per $1,000 principal amount of 1.00% Notes for each day of such period was less than 98% of the product of the closing sale price of the Company's common stock and the conversion rate; (iii) upon occurrence of the specified transactions described in the 1.00% Indenture; or (iv) on and after September 1, 2020 (each considered a "trigger"). Upon conversion of the 1.00% Notes, the Company will deliver cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election.

The last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on March 31, 2018 was greater than or equal to $24.05 (130% of the conversion price) on each applicable trading day. As a result, the Company recorded the outstanding balance, net of discount, of $625.0 million of the 1.00% Notes as a current portion of long-term debt as of March 30, 2018, and as required by the 1.00% Indenture, gave notice to the trustee, the conversion agent and each holder on March 29, 2018 that each holder has the right to surrender any portion of its 1.00% Notes (in minimum denominations of $1,000 in principal amount or an integral multiple thereof) for conversion during the calendar quarter ending June 30, 2018 (and only during such calendar quarter unless the trigger remains) pursuant to the terms of the 1.00% Indenture.

Note Payable to SMBC

On January 31, 2013, the Company amended and restated its seven-year, non-collateralized loan obligation with SANYO Electric. In connection with the amendment and restatement of the loan agreement, SANYO Electric assigned all of its rights under the loan agreement to SMBC. The loan had an original principal amount of approximately $377.5 million and had a principal balance of $122.7 million as of December 31, 2017. The entire balance was repaid on the due date of January 2, 2018.

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Note 8: Earnings Per Share and Equity

Earnings Per Share

Calculations of net income per common share attributable to ON Semiconductor are as follows (in millions, except per share data):

	Quarter Ended	
	March 30, 2018	March 31, 2017
Net income attributable to ON Semiconductor Corporation	$ 139.6	$ 78.2
Basic weighted-average common shares outstanding	425.9	419.8
Dilutive effect of share-based awards	5.7	6.0
Dilutive effect of convertible notes	12.6	—
Diluted weighted-average common shares outstanding	444.2	425.8
Net income per common share attributable to ON Semiconductor Corporation:		
Basic	$ 0.33	$ 0.19
Diluted	$ 0.31	$ 0.18

Basic income per common share is computed by dividing net income attributable to ON Semiconductor Corporation by the weighted average number of common shares outstanding during the period.

The number of incremental shares from the assumed exercise of stock options and assumed issuance of shares relating to RSUs is calculated by applying the treasury stock method. Share-based awards whose impact is considered to be anti-dilutive under the treasury stock method were excluded from the diluted net income per share calculation. The excluded number of anti-dilutive shares subject to share-based awards was 0.5 million and 0.9 million for the quarters ended March 30, 2018 and March 31, 2017, respectively.

The dilutive impact related to the Company's 1.00% Notes and 1.625% Notes is determined in accordance with the net share settlement requirements prescribed by ASC Topic 260, *Earnings Per Share*. Under the net share settlement calculation, the Company's convertible notes are assumed to be convertible into cash up to the par value, with the excess of par value being convertible into common stock. A dilutive effect occurs when the stock price exceeds the conversion price for each series of the convertible notes. During the quarter ended March 30, 2018, the average share price exceeded the conversion price for both the 1.00% Notes and the 1.625% Notes and the impact of the excess over par value is included in calculating the dilutive effect of the convertible notes. In periods when the share price is lower than the conversion price, the impact is anti-dilutive and therefore has no impact on the Company's earnings per share calculations. Additionally, if the average price of the Company's common stock exceeds $25.96 per share, with respect to the 1.00% Notes, or $30.70 per share, with respect to the 1.625% Notes, for a reporting period, the Company will also include the effect of the additional potential shares, using the treasury stock method, that may be issued related to the warrants that were issued concurrently with the issuance of the 1.00% Notes and 1.625% Notes, respectively. Prior to conversion, the convertible note hedges are not considered for purposes of the earnings per share calculations, as their effect would be anti-dilutive. Upon conversion, the convertible note hedges are expected to offset the dilutive effect of the 1.00% Notes and 1.625% Notes, respectively, when the stock price is above $18.50 per share, with respect to the 1.00% Notes, and $20.72 per share, with respect to the 1.625% Notes.

Equity

Share Repurchase Program

There were no repurchases of the Company's common stock under the share repurchase program during the quarters ended March 30, 2018 and March 31, 2017.

Shares for Restricted Stock Units Tax Withholding

Treasury stock is recorded at cost and is presented as a reduction of stockholders' equity in the accompanying consolidated financial statements. Shares with a fair market value equal to the applicable statutory minimum amount of the employee withholding taxes

due are withheld by the Company upon the vesting of RSUs to pay the applicable statutory minimum amount of employee withholding taxes and are considered common stock repurchases. The Company then pays the applicable statutory minimum amount of withholding taxes in cash. The amounts remitted for the quarter ended March 30, 2018 was $18.8 million, for which the Company withheld 0.7 million shares of common stock that were underlying the RSUs that vested. The amount remitted for the quarter ended March 31, 2017 was $13.0 million, for which the Company withheld approximately 0.9 million shares of common stock that were underlying the RSUs that vested. None of these shares had been reissued or retired as of March 30, 2018, but may be reissued or retired by the Company at a later date. These repurchases do not count against the Company's share repurchase program.

Non-Controlling Interest

The Company's entity which operates assembly and test operations in Leshan, China is owned by Leshan-Phoenix Semiconductor Company Limited, a joint venture company in which the Company owns a majority of the outstanding equity interests ("Leshan"). The Company owns 80% of the outstanding equity interests in Leshan and its investment in Leshan has been consolidated in the Company's financial statements.

At December 31, 2017, the non-controlling interest balance was $22.2 million. This balance increased to $23.1 million as of March 30, 2018, resulting from the non-controlling interest's $0.9 million share of the earnings for the quarter ended March 30, 2018.

Note 9: Share-Based Compensation

Total share-based compensation expense related to the Company's stock options, RSUs, stock grant awards and ESPP were recorded within the Consolidated Statements of Operations and Comprehensive Income as follows (in millions):

	Quarter Ended	
	March 30, 2018	March 31, 2017
Cost of revenues	$ 1.6	$ 1.5
Research and development	3.2	2.9
Selling and marketing	3.2	2.8
General and administrative	10.4	7.9
Share-based compensation expense before income taxes	$ 18.4	$ 15.1
Related income tax benefits (1)	3.9	5.3
Share-based compensation expense, net of taxes	$ 14.5	$ 9.8

(1) Tax benefit calculated using the federal statutory rate of 21% and 35% for the quarters ended March 30, 2018 and March 31, 2017, respectively.

At March 30, 2018, total unrecognized estimated share-based compensation expense, net of estimated forfeitures, related to non-vested stock options was less than $0.1 million, which is expected to be recognized over a weighted-average period of 4 months. At March 30, 2018, total unrecognized share-based compensation expense, net of estimated forfeitures, related to non-vested RSUs with time-based service conditions and performance-based vesting criteria was $130.9 million, which is expected to be recognized over a weighted-average period of 1.98 years. The total intrinsic value of stock options exercised during the quarter ended March 30, 2018 was $9.4 million. The Company received cash of $3.6 million for the quarter ended March 30, 2018 from the exercise of stock options. Upon option exercise, vesting of RSUs, stock grant awards or completion of a purchase under the ESPP, the Company issues new shares of common stock.

Share-based compensation expense is based on awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The annualized pre-vesting forfeiture rate for stock options was estimated to be 11% during the quarters ended March 30, 2018 and March 31, 2017. The annualized pre-vesting forfeiture rate for RSUs was estimated to be 5% during the quarters ended March 30, 2018 and March 31, 2017.

Shares Available

As of March 30, 2018, there was an aggregate of 34.9 million shares of common stock available for grant under the Amended and Restated SIP and 8.0 million shares available for issuance under the ESPP. As of December 31, 2017, there was an aggregate of 39.0 million shares of common stock available for grant under the Company's Amended and Restated SIP and 8.0 million shares available for issuance under the ESPP.

Stock Options

A summary of stock option transactions for all stock option plans is as follows (in millions, except per share and contractual term data):

	Quarter Ended March 30, 2018			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (In-The-Money)
Outstanding at December 31, 2017	1.1	$ 6.95		
Granted	—	—		
Exercised	(0.6)	6.79		
Canceled	—	—		
Outstanding at March 30, 2018	0.5	$ 7.11	1.18	$ 9.2
Exercisable at March 30, 2018	0.5	$ 7.11	1.18	$ 9.2

All outstanding options had exercise prices below $24.46 per share, the closing price of the Company's common stock at March 30, 2018.

Restricted Stock Units

RSUs generally vest over three years with service-based requirements or performance-based requirements or a combination of service-based and performance-based requirements and are payable in shares of the Company's common stock upon vesting. A summary of the RSU transactions for the quarter ended March 30, 2018 is as follows (in millions, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Non-vested RSUs at December 31, 2017	9.8	$ 12.63
Granted	2.7	24.43
Released	(2.6)	12.18
Forfeited	(0.1)	13.49
Non-vested RSUs at March 30, 2018	9.8	15.94

Note 10: Commitments and Contingencies

Leases

The following represents future minimum lease obligations under non-cancelable operating leases as of March 30, 2018 (in millions):

Remainder of 2018	$ 29.1
2019	33.8
2020	23.7
2021	19.1
2022	14.6
Thereafter	55.9
Total (1)	$176.2

(1) Excludes $17.5 million of expected sublease income.

Environmental Contingencies

The Company's headquarters in Phoenix, Arizona are located on property that is a "Superfund" site, which is a property listed on the National Priorities List and subject to clean-up activities under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"). Motorola and Freescale (acquired by NXP Semiconductors N.V.) have been involved in the cleanup of on-site solvent contaminated soil and groundwater and off-site contaminated groundwater pursuant to consent decrees with the State of Arizona. As part of the Company's separation from Motorola in 1999, Motorola retained responsibility for this contamination, and Motorola and Freescale have agreed to indemnify the Company with respect to remediation costs and other costs or liabilities related to this matter.

The Company's former front-end manufacturing location in Aizu, Japan is located on property where soil and ground water contamination was detected. The Company believes that the contamination originally occurred during a time when the facility was operated by a prior owner. The Company worked with local authorities to implement a remediation plan and has completed remaining remediation. The majority of the cost of remediation was covered by insurance. Any costs to the Company in connection with this matter have not been, and, based on the information available, are not expected to be, material.

The Company's manufacturing facility in the Czech Republic has ongoing remediation projects to respond to releases of hazardous substances that occurred during the years that this facility was operated by government-owned entities. The remediation projects consist primarily of monitoring groundwater wells located on-site and off-site with additional action plans developed to respond in the event activity levels are exceeded. The government of the Czech Republic has agreed to indemnify the Company and its respective subsidiaries, subject to specified limitations, for remediation costs associated with this historical contamination. Any costs to the Company in connection with this matter have not been, and, based on the information available, are not expected to be, material.

The Company's design center in East Greenwich, Rhode Island is located on property that has localized soil contamination. In connection with the purchase of the facility, the Company entered into a Settlement Agreement and Covenant Not to Sue with the State of Rhode Island. This agreement requires that remedial actions be undertaken and a quarterly groundwater monitoring program be initiated by the former owners of the property. Any costs to the Company in connection with this matter have not been, and, based on the information available, are not expected to be, material.

As a result of the acquisition of AMIS of 2008, the Company is a "primary responsible party" to an environmental remediation and cleanup at AMIS's former corporate headquarters in Santa Clara, California. Costs incurred by AMIS include implementation of the clean-up plan, operations and maintenance of remediation systems, and other project management costs. However, AMIS's former parent company, a subsidiary of Nippon Mining, contractually agreed to indemnify AMIS and the Company for any obligations relating to environmental remediation and cleanup at this location. Any costs to the Company in connection with this matter have not been, and, based on the information available, are not expected to be, material.

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Through its acquisition of Fairchild, the Company acquired a facility in South Portland, Maine. This facility has ongoing environmental remediation projects to respond to certain releases of hazardous substances that occurred prior to the leveraged recapitalization of Fairchild from its former parent company, National Semiconductor Corporation, which is now owned by Texas Instruments, Inc. Although the Company may incur certain liabilities with respect to these remediation projects, pursuant to the asset purchase agreement entered into in connection with the Fairchild recapitalization, National Semiconductor Corporation agreed to indemnify Fairchild, without limitation and for an indefinite period of time, for all future costs related to these projects. Under a 1999 asset purchase agreement pursuant to which Fairchild purchased the power device business of Samsung, Samsung agreed to indemnify Fairchild in an amount up to $150.0 million for remediation costs and other liabilities related to historical contamination at Samsung's Bucheon, South Korea operations. Any costs to the Company in connection with this matter have not been, and, based on the information available, are not expected to be, material.

Under a 2001 asset purchase agreement pursuant to which Fairchild purchased a manufacturing facility in Mountain Top, Pennsylvania, Intersil Corp. (acquired by Renesas Electronics Corporation) agreed to indemnify Fairchild for remediation costs and other liabilities related to historical contamination at the facility. Any costs to the Company incurred to respond to the above conditions and projects have not been, and are not expected to be, material, and any future payments the Company makes in connection with such liabilities are not expected to be material.

The Company was notified by the Environmental Protection Agency ("EPA") that it has been identified as a "potentially responsible party" ("PRP") under CERCLA in the Chemetco Superfund matter. Chemetco, a defunct reclamation services supplier that operated in Illinois at what is now a Superfund site, has performed reclamation services for the Company in the past. The EPA is pursuing Chemetco customers for contribution to the site cleanup activities. The Company has joined a PRP group which is cooperating with the EPA in the evaluation and funding of the cleanup. Any costs to the Company in connection with this matter have not been, and, based on the information available, are not expected to be, material.

Financing Contingencies

In the ordinary course of business, the Company provides standby letters of credit or other guarantee instruments to certain parties initiated by either the Company or its subsidiaries, as required for transactions such as, but not limited to, material purchase commitments, agreements to mitigate collection risk, leases, utilities or customs guarantees. As of March 30, 2018, the Company's Revolving Credit Facility included $15.0 million of availability for the issuance of letters of credit. There were $0.4 million of letters of credit outstanding under the Revolving Credit Facility as of March 30, 2018, which reduces the Company's borrowing capacity. The Company also had outstanding guarantees and letters of credit outside of its Revolving Credit Facility totaling $6.4 million as of March 30, 2018.

As part of obtaining financing in the ordinary course of business, the Company has issued guarantees related to certain of its capital lease obligations, equipment financing, lines of credit and real estate mortgages, which totaled $113.9 million as of March 30, 2018.

Based on historical experience and information currently available, the Company believes that it will not be required to make payments under the standby letters of credit or guarantee arrangements for the foreseeable future.

Indemnification Contingencies

The Company is a party to a variety of agreements entered into in the ordinary course of business pursuant to which it may be obligated to indemnify the other parties for certain liabilities that arise out of or relate to the subject matter of the agreements. Some of the agreements entered into by the Company require it to indemnify the other party against losses due to IP infringement, property damage (including environmental contamination), personal injury, failure to comply with applicable laws, the Company's negligence or willful misconduct or breach of representations and warranties and covenants related to such matters as title to sold assets.

The Company faces risk of exposure to warranty and product liability claims in the event that its products fail to perform as expected or such failure of its products results, or is alleged to result, in economic damage, bodily injury or property damage. In addition, if any of the Company's designed products are alleged to be defective, the Company may be required to participate in their recall. Depending on the significance of any particular customer and other relevant factors, the Company may agree to provide more favorable rights to such customer for valid defective product claims.

The Company and its subsidiaries provide for indemnification of directors, officers and other persons in accordance with limited liability company operating agreements, certificates of incorporation, by-laws, articles of association or similar organizational

documents, as the case may be. Section 145 of the Delaware General Corporation Law ("DGCL") authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers under certain circumstances and subject to certain limitations. The terms of Section 145 of the DGCL are sufficiently broad to permit indemnification under certain circumstances for liabilities, including reimbursement of expenses incurred, arising under the Exchange Act. As permitted by the DGCL, the Company's Amended and Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), contains provisions relating to the limitation of liability and indemnification of directors and officers. The Certificate of Incorporation eliminates the personal liability of each of the Company's directors to the fullest extent permitted by Section 102(b)(7) of the DGCL, as it may be amended or supplemented, and provides that the Company will indemnify its directors and officers to the fullest extent permitted by Section 145 of the DGCL, as amended from time to time.

The Company has entered into indemnification agreements with each of its directors and executive officers. The form of agreement (the "Indemnification Agreement") provides, subject to certain exceptions and conditions specified in the Indemnification Agreement, that the Company will indemnify each indemnitee to the fullest extent permitted by Delaware law against all expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with a proceeding or claim in which such person is involved because of his or her status as one of the Company's directors or executive officers. In addition, the Indemnification Agreement provides that the Company will, to the extent not prohibited by law and subject to certain exceptions and repayment conditions, advance specified indemnifiable expenses incurred by the indemnitee in connection with such proceeding or claim. The foregoing description of the Indemnification Agreement does not purport to be complete and is qualified in its entirety by reference to the full and complete terms of the Indemnification Agreement, which is filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on February 25, 2016 and is incorporated by reference herein.

The Company also maintains directors' and officers' insurance policies that indemnify its directors and officers against various liabilities, including certain liabilities under the Exchange Act, that might be incurred by any director or officer in his or her capacity as such.

The agreement and plan of merger relating to the acquisition of Fairchild (the "Fairchild Agreement") provides for indemnification and insurance rights in favor of Fairchild's then current and former directors, officers and employees. Specifically, the Company has agreed that, for no fewer than six years following the Fairchild acquisition, the Company will: (a) indemnify and hold harmless each such indemnitee against losses and expenses (including advancement of attorneys' fees and expenses) in connection with any proceeding asserted against the indemnified party in connection with such person's servings as a director, officer, employee or other fiduciary of Fairchild or its subsidiaries prior to the effective time of the acquisition; (b) maintain in effect all provisions of the certificate of incorporation or bylaws of Fairchild or any of its subsidiaries or any other agreements of Fairchild or any of its subsidiaries with any indemnified party regarding elimination of liability, indemnification of officers, directors and employees and advancement of expenses in existence on the date of the Fairchild Agreement for acts or omissions occurring prior to the effective time of the acquisition; and (c) subject to certain qualifications, provide to Fairchild's then current directors and officers an insurance and indemnification policy that provides coverage for events occurring prior to the effective time of the acquisition that is no less favorable than Fairchild's then-existing policy, or, if insurance coverage that is no less favorable is unavailable, the best available coverage.

While the Company's future obligations under certain agreements may contain limitations on liability for indemnification, other agreements do not contain such limitations and under such agreements it is not possible to predict the maximum potential amount of future payments due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under any of these indemnities have not had a material effect on the Company's business, financial condition, results of operations or cash flows. Additionally, the Company does not believe that any amounts that it may be required to pay under these indemnities in the future will be material to the Company's business, financial position, results of operations or cash flows.

Legal Matters

From time to time, the Company is party to various legal proceedings arising in the ordinary course of business, including indemnification claims, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions and claims related to alleged violations of laws and regulations. The Company regularly evaluates the status of the legal proceedings in which it is involved to assess whether a loss is probable or there is a reasonable possibility that a loss, or an additional loss, may have been incurred and determine if accruals are appropriate. If accruals are not appropriate, the Company further evaluates each legal proceeding to assess whether an estimate of possible loss or range of possible loss can be made for disclosure. Although litigation is inherently unpredictable, the Company believes that it has

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adequate provisions for any probable and estimable losses. It is possible, nevertheless, that the Company's consolidated financial position, results of operations or liquidity could be materially and adversely affected in any particular period by the resolution of a legal proceeding. The Company's estimates do not represent its maximum exposure. Legal expenses related to defense, negotiations, settlements, rulings and advice of outside legal counsel are expensed as incurred.

The Company is currently involved in a variety of legal matters that arise in the ordinary course of business. Based on information currently available, except as disclosed below, the Company is not involved in any pending or threatened legal proceedings that it believes could reasonably be expected to have a material adverse effect on its financial condition, results of operations or liquidity. The litigation process and the administrative process at the United States Patent and Trademark Office (the "USPTO") are inherently uncertain, and the Company cannot guarantee that the outcome of these matters will be favorable to it.

Patent Litigation with Power Integrations, Inc.

There are eight outstanding civil litigation proceedings with Power Integrations, Inc. ("PI"), five of which were pending between PI and various Fairchild entities (including Fairchild Semiconductor International, Inc., Fairchild Semiconductor Corporation, and Fairchild (Taiwan) Corporation, f/k/a System General Corporation (collectively referred to in this sub-section as "Fairchild")), prior to the acquisition of Fairchild. The Company is vigorously defending the lawsuits filed by PI and believes that it has strong defenses. There are also over two dozen outstanding administrative proceedings between the parties at the USPTO in which each party is challenging the validity of the other party's patents.

The outcome of any litigation is inherently uncertain and difficult to predict. Any estimate or statement regarding any reserve or the estimated range of possible losses is made solely in compliance with applicable GAAP requirements, and is not a statement or admission that the Company is or should be liable in any amount, or that any arguments, motions or appeals before any Court lack merit or are subject to impeachment. To the contrary, the Company believes that it has significant and meritorious grounds for judgment in its favor with respect to all of the PI cases and that the Company's appeals or motions currently pending at the district court level will significantly reduce or eliminate all prior adverse jury verdicts. Subject to the foregoing, as of the date of the filing of this Form 10-Q, the Company estimates its range of possible losses for all PI cases to be between approximately $4.0 million and $20.0 million in the aggregate.

Power Integrations v. Fairchild Semiconductor International, Inc. et al. (October 20, 2004, Delaware, 1:04-cv-01371-LPS): PI filed this lawsuit in 2004 in the U.S. District Court for the District of Delaware against Fairchild, alleging that certain of Fairchild's pulse width modulation ("PWM") integrated circuit products infringed U.S. patents owned by PI. The lawsuit sought a permanent injunction as well as money damages for Fairchild's alleged infringement. In October 2006, a jury returned a willful infringement verdict and assessed damages against Fairchild. Fairchild voluntarily stopped U.S. sales and importation of those products in 2007 and has been offering replacement products since 2006. In December 2008, the judge overseeing the case reduced the jury's 2006 damages award from $34.0 million to approximately $6.1 million and ordered a new trial on the issue of willfulness. Following the new trial held in June 2009, the court found Fairchild's infringement to have been willful, and in January 2011 the court awarded PI final damages in the amount of $12.2 million. Fairchild appealed the final damages award, willfulness finding, and other issues to the U.S. Court of Appeals for the Federal Circuit. In March 2013, the Court of Appeals vacated substantially all of the damages award, ruling that there was no basis upon which a reasonable jury could find Fairchild liable for induced infringement. The Court of Appeals also vacated the earlier judgment of willful patent infringement. The full Court of Appeals and the Supreme Court of the United States later denied PI's request to review the Court of Appeals ruling. The Court of Appeals instructed the lower court to conduct further proceedings to determine damages based on approximately $750,000 worth of sales and imports of affected products and to re-assess its finding that the infringement was willful. In December 2017, the lower court reinstated the willfulness finding, but has since stayed resolution of the other outstanding issues, including damages, pending a Supreme Court decision in a separate matter that is expected in the summer of 2018.

Power Integrations v. Fairchild Semiconductor International, Inc. et al. (May 23, 2008, Delaware, 1:08-cv-00309-LPS): This lawsuit was initiated by PI in 2008 in the U.S. District Court for the District of Delaware against Fairchild, alleging that certain other PWM products infringed several U.S. patents owned by PI. On October 14, 2008, Fairchild filed a patent infringement lawsuit against PI in

the U.S. District Court for the District of Delaware, alleging that certain PI products infringed U.S. patents owned by Fairchild. Each lawsuit included claims for money damages and a request for a permanent injunction. These two lawsuits were consolidated and heard together in a jury trial in April 2012, during which the jury found that PI infringed one of the two U.S. patents owned by Fairchild and upheld the validity of both of the Fairchild patents. In the same verdict, the jury found that Fairchild infringed two of four U.S. patents asserted by PI and that Fairchild had induced its customers to infringe the asserted patents. (The court later ruled that Fairchild infringed one other asserted PI patent that the jury found was not infringed.) The jury also upheld the validity of the asserted PI patents, and the court entered a permanent injunction against Fairchild. Willfulness and damages were not considered in the April 2012 trial, but were reserved for subsequent proceedings. Fairchild and PI appealed the liability phase of this litigation to the U.S. Court of Appeals for the Federal Circuit, which heard arguments in July 2016 and issued a decision in December 2016. In the decision, the appeals court vacated the jury's finding that Fairchild induced infringement of PI's patents, held that one of PI's patents was invalid, vacated the permanent injunction against Fairchild, reversed the jury's finding that PI infringed the Fairchild patent and remanded the case back to the lower court for further proceedings consistent with these rulings.

The Company is preparing for a trial later this year at which willfulness, inducement and money damages are expected to be addressed.

Power Integrations v. Fairchild Semiconductor International Inc. et al. (November 4, 2009, Northern District of California, 3:09-cv-05235-MMC): In 2009, PI sued Fairchild in the U.S. District Court for the Northern District of California, alleging that several of Fairchild's products infringe three of PI's patents. Fairchild filed counterclaims asserting that PI infringed two Fairchild patents. During the initial trial on this matter in 2014, a jury found that Fairchild willfully infringed two PI patents, awarded PI $105.0 million in damages and found that PI did not infringe any Fairchild patent. In September 2014, the court granted a motion filed by Fairchild that sought to set aside the jury's determination that it acted willfully, and held that, as a matter of law, Fairchild's actions were not willful. In November 2014, in response to another post-trial motion filed by Fairchild, the trial court ruled that the jury lacked sufficient evidence on which to base its damages award and, consequently, vacated the $105.0 million verdict and ordered a second trial on damages. The second damages trial was held in December 2015, in which a jury awarded PI $139.8 million in damages. Fairchild filed a number of post-trial motions challenging the second damages verdict, but the court ruled against Fairchild on these motions and awarded PI approximately $7.0 million in pre-judgment interest. Following the court's rulings on these issues, PI moved the court to reinstate the jury's willfulness finding and sought enhanced damages and attorneys' fees. On January 23, 2017, the court reinstated the jury's willful infringement finding, but denied PI's motion for enhanced damages and attorneys' fees in its entirety. The Company has filed a notice of appeal with the U.S. Court of Appeals for the Federal Circuit with respect to the current damages award as well as the 2014 verdict finding that PI's patents were infringed and valid. The appeal briefing is complete, and oral argument was held on April 2, 2018, with a decision expected later this year. Separately, on May 26, 2017, the district court ordered Fairchild to obtain a bond for the judgment pending appeal, and on June 22, 2017, the district court accepted Fairchild's bond and stayed execution of judgment. All claims of the two PI patents found to be infringed by Fairchild and that support the damages verdict have since been determined to be unpatentable in several inter partes review administrative proceedings described below. The impact of the USPTO's unpatentability determinations on the district court judgment is uncertain at this stage of the proceedings.

Fairchild Semiconductor International Inc. et al. v. Power Integrations (May 1, 2012, Delaware, 1:12-cv-00540-LPS): In May 2012, Fairchild sued PI in the U.S. District Court for the District of Delaware, and alleged that various PI products infringe Fairchild's U.S. patents. PI filed counterclaims of patent infringement against Fairchild, asserting five PI patents. Of those five patents, the court granted Fairchild summary judgment of no infringement on one, and PI voluntarily withdrew a second and was forced to remove a third patent during the trial, which began in May 2015. In that trial, the jury found that PI induced infringement of Fairchild's patent rights and awarded Fairchild $2.4 million in damages. The same jury found that Fairchild infringed a PI patent and awarded PI damages of $100,000. Based on the December 2016 appellate court decision in the litigation filed in Delaware in 2008 (described above), on July 13, 2017, the district court vacated the jury's finding that PI infringed Fairchild's patent. The court has tentatively scheduled a trial for November 2018 to resolve minor outstanding issues before final judgment can be entered.

Power Integrations v. Fairchild Semiconductor International Inc. et al. (October 21, 2015, Northern District of California, 3:15-cv-04854 MMC): In 2015, PI filed another complaint for patent infringement against Fairchild in the U.S. District Court for the Northern District of California, alleging Fairchild's products willfully infringe two PI patents. In the complaint, PI is seeking a

permanent injunction, unspecified damages, a trebling of damages, and an accounting of costs and fees. Fairchild answered and counterclaimed, alleging infringement by PI of four Fairchild patents related to aspects of PI's products, and also seeking damages and a permanent injunction. The lawsuit is in its earliest stages, and has been stayed pending the outcome of the Company's administrative challenges to the two PI patents asserted against Fairchild, which are described below. PI has also filed administrative challenges to Fairchild's asserted patents.

Power Integrations v. ON Semiconductor Corporation, and Semiconductor Components Industries, LLC (November 1, 2016, Northern District of California, 5:16-cv-06371-BLF and 5:17-cv-03189): On August 11, 2016, ON Semiconductor Corporation and SCILLC (collectively referred to in this sub-section as "ON Semi") filed a lawsuit against PI in the U.S. District Court for the District of Arizona, alleging that PI infringed six patents and seeking a permanent injunction and money damages for the alleged infringement. The lawsuit also sought a claim for a declaratory judgment that ON Semi does not infringe several of PI's patents. Rather than responding to ON Semi's lawsuit in Arizona, PI filed a separate lawsuit in the U.S. District Court for the Northern District of California in November 2016, alleging that ON Semi infringes six PI patents, including two of the three PI patents in ON Semi's declaratory judgment claims from Arizona. PI also moved the Arizona court to dismiss ON Semi's lawsuit, or in the alternative to transfer the lawsuit to California. Following various procedural motions, ON Semi's Arizona action has been transferred to the U.S. District Court for the Northern District of California and consolidated with PI's November 2016 lawsuit, in which PI has subsequently asserted a claim for infringement on the last of the three PI patents in ON Semi's original declaratory judgment claims. The lawsuit is in its early stages, but the parties have begun to engage in discovery, with substantive developments expected throughout the course of 2018.

ON Semiconductor Corporation and Semiconductor Components Industries, LLC v. Power Integrations, Inc. (March 9, 2017, District of Delaware, 1:17-cv-00247-LPS-CJB): On March 9, 2017, ON Semi filed a lawsuit against PI in the U.S. District Court for the District of Delaware, alleging that PI's InnoSwitch family of products infringe six of ON Semi's U.S. patents. Following some procedural motions, PI has since counterclaimed alleging infringement by ON Semi of seven of PI's U.S. Patents. Both parties seek money damages and a permanent injunction. The lawsuit is in its early stages, but the parties have begun to engage in discovery, with substantive developments expected throughout the course of 2018.

Semiconductor Components Industries, LLC v. Power Integrations, Inc. (November 2017, Taiwan Intellectual Property Court, 106-Ming-min-bu-Tzu-238): In November 2017, Semiconductor Components Industries, LLC filed a lawsuit against PI in Taiwan alleging infringement by PI of certain of ON Semi's Taiwanese patents. The lawsuit is in its early stages.

Administrative Challenges to PI's Patents

In addition to the eight court proceedings described above, there are presently two dozen pending inter partes review administrative proceedings between PI and ON Semi/Fairchild. Each of these administrative proceedings seeks to invalidate certain claims asserted in the various court proceedings. For the two proceedings filed by ON Semi involving claims asserted in the case filed in 2009 in the Northern District of California, the USPTO has issued a Final Written Decision finding that all of the claims challenged in those proceedings are unpatentable, and PI recently filed a notice of appeal for those decisions. The USPTO has also issued Final Written Decisions in seven additional proceedings in ON Semiconductor's favor. In three other of the proceedings, initiated by PI, the USPTO has instituted a review of three ON Semi patents that are being asserted against PI, but the USPTO has not rendered a Final Written Decision in any of those three cases. All of the other proceedings remain pending, with further developments expected during 2018.

Litigation with Acbel Polytech, Inc.

On November 27, 2013, Fairchild and Fairchild Semiconductor Corporation were named as defendants in a complaint filed by Acbel Polytech, Inc. ("Acbel") in the U.S. District Court for the District of Massachusetts. The lawsuit alleged a number of causes of action, including breach of warranty, fraud, negligence and strict liability, and has been docketed as *Acbel Polytech, Inc. v. Fairchild Semiconductor International, Inc. et al*, Case # 1:13-CV-13046-DJC. On December 10, 2016, the Court issued an order on the Company's motion for summary judgment dismissing all of Acbel's claims except for claims alleging breach of implied warranties. A bench trial was held in June 2017. On December 27, 2017, the Court rendered a verdict in favor of the Fairchild defendants on the remaining implied warranty claims. On January 24, 2018, Acbel filed a notice of appeal. On February 6, 2018, Fairchild filed notice of a cross appeal.

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Intellectual Property Matters

The Company faces risk to exposure from claims of infringement of the IP rights of others. In the ordinary course of business, the Company receives letters asserting that the Company's products or components breach another party's rights. These threats may seek that the Company make royalty payments, stop use of such rights, or other remedies.

Note 11: Fair Value Measurements

Fair Value of Financial Instruments

The following table summarizes the Company's financial assets and liabilities, excluding pension assets, measured at fair value on a recurring basis (in millions):

Description	As of March 30, 2018	Fair Value Hierarchy Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents:				
Demand and time deposits	$ 14.5	$ 14.5	$ —	$ —
Money market funds	0.4	0.4	—	—

During the quarter ended March 30, 2018, the Company reduced the contingent consideration payable relating to the second earn-out for the AXSEM acquisition to zero due to a revision in the Company's expectations regarding the likelihood that the earn-out would be achieved. The gain was recorded in other expense in the Consolidated Statements of Operations and Comprehensive Income.

Description	As of December 31, 2017	Fair Value Hierarchy Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents:				
Demand and time deposits	$ 71.7	$ 71.7	$ —	$ —
Money market funds	0.2	0.2	—	—
Liabilities:				
Contingent consideration	$ 2.3	$ —	$ —	$ 2.3

Other

The carrying amounts of other current assets and liabilities, such as accounts receivable and accounts payable, approximate fair value based on the short-term nature of these instruments.

Fair Value of Long-Term Debt, Including Current Portion

The carrying amounts and fair values of the Company's long-term borrowings (excluding capital lease obligations, real estate mortgages and equipment financing) are as follows (in millions):

	As of March 30, 2018		As of December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion				
Convertible notes	$1,089.9	$1,749.0	$ 1,080.1	$ 1,596.7
Long-term debt	$1,705.6	$1,700.9	$ 1,833.2	$ 1,845.4

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The fair value of the Company's 1.00% Notes and 1.625% Notes were estimated based on market prices in active markets (Level 1). The fair value of other long-term debt was estimated based on discounting the remaining principal and interest payments using current market rates for similar debt (Level 2) at March 30, 2018 and December 31, 2017.

Cost Method Investments

Investments in equity securities that do not qualify for fair value accounting are accounted for under the cost method. Accordingly, the Company accounts for investments in companies that it does not control, or have significant influence over, under the cost method, as applicable. If a decline in the fair value of a cost method investment is determined to be other than temporary, an impairment charge is recorded, and the carrying value of the cost method investment is reduced to fair value. The Company evaluates all of its cost method investments for impairment; however, it is not required to determine the fair value of its investment unless impairment indicators are present.

The Company's cost method investments had a carrying value of $12.6 million as of March 30, 2018 and December 31, 2017. See Note 16: "Subsequent Events" for further information.

Note 12: Financial Instruments

Foreign Currencies

As a multinational business, the Company's transactions are denominated in a variety of currencies. When appropriate, the Company uses forward foreign currency contracts to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. The Company's policy prohibits trading in currencies for which there are no underlying exposures and entering into trades for any currency to intentionally increase the underlying exposure.

The Company primarily hedges existing assets and liabilities associated with transactions currently on its balance sheet, which are undesignated hedges for accounting purposes.

As of March 30, 2018 and December 31, 2017, the Company had net outstanding foreign exchange contracts with notional amounts of $115.6 million and $130.5 million, respectively. Such contracts were obtained through financial institutions and were scheduled to mature within one to three months from the time of purchase. Management believes that these financial instruments should not subject the Company to increased risks from foreign exchange movements because gains and losses on these contracts should offset losses and gains on the underlying assets, liabilities and transactions to which they are related.

The following summarizes the Company's net foreign exchange positions in U.S. dollars (in millions):

	As of March 30, 2018		As of December 31, 2017	
	Buy (Sell)	Notional Amount	Buy (Sell)	Notional Amount
Euro	$ (29.0)	$ 29.0	$ (22.9)	$ 22.9
Japanese Yen	(15.9)	15.9	(40.0)	40.0
Philippine Peso	28.9	28.9	26.4	26.4
Other Currencies - Buy	35.4	35.4	30.9	30.9
Other Currencies - Sell	(6.4)	6.4	(10.3)	10.3
	$ 13.0	$ 115.6	$ (15.9)	$ 130.5

Amounts receivable or payable under the contracts are included in other current assets or accrued expenses in the accompanying Consolidated Balance Sheet. For the quarters ended March 30, 2018 and March 31, 2017, realized and unrealized foreign currency transactions totaled a $4.4 million loss and a $2.3 million loss, respectively. The realized and unrealized foreign currency transactions are included in other income and expenses in the Company's Consolidated Statements of Operations and Comprehensive Income.

Cash Flow Hedges

All derivatives are recognized on the balance sheet at their fair value and classified based on the instrument's maturity date.

Interest rate risk

The Company uses interest rate swap contracts to mitigate its exposure to interest rate fluctuations associated with the Term Loan "B" Facility. The Company does not use such swap contracts for speculative or trading purposes.

To partially offset the variability of future interest payments on the outstanding Term Loan "B" Facility arising from changes in LIBOR rates, on January 11, 2017, the Company entered into interest rate swap agreements with three financial institutions for notional amounts totaling $500.0 million (effective as of January 11, 2017), $750.0 million (effective as of December 29, 2017) and $1.0 billion (effective as of December 31, 2018) with expiry dates of December 29, 2017, December 31, 2018 and December 31, 2019, respectively. These agreements effectively hedge some of the future variable rate LIBOR interest expense to a fixed rate interest expense. The derivative instruments qualified for accounting as a cash flow hedge in accordance with ASC 815, and the Company designated it as such. The Company performed effectiveness assessments, and concluded that there is no ineffectiveness during the quarters ended March 30, 2018 and March 31, 2017.

Foreign currency risk

The purpose of the Company's foreign currency hedging activities is to protect the Company from the risk that the eventual cash flows resulting from transactions in foreign currencies will be adversely affected by changes in exchange rates. The Company enters into forward contracts that are designated as foreign currency cash flow hedges of selected forecasted payments denominated in currencies other than U.S. dollars.

For the quarters ended March 30, 2018 and March 31, 2017, the Company recorded a net loss of zero associated with cash flow hedges recognized as a component of cost of revenues. The Company did not have outstanding derivatives for its foreign currency exposure designated as cash flow hedges as of March 30, 2018 and March 31, 2017.

See Note 14: "Changes in Accumulated Other Comprehensive Loss" for the effective amounts related to derivative instruments designated as cash flow hedges affecting accumulated other comprehensive loss and the Company's Consolidated Statements of Operations and Comprehensive Income for the three months ended March 30, 2018.

Convertible Note Hedges

The Company entered into convertible note hedges in connection with the issuance of the 1.00% Notes and 1.625% Notes.

Other

At March 30, 2018, the Company had no outstanding commodity derivatives, currency swaps or options relating to either its debt instruments or investments. The Company does not hedge the value of its equity investments in its subsidiaries or affiliated companies. The Company is exposed to credit-related losses if counterparties to its hedge contracts fail to perform their obligations. As of March 30, 2018, the counterparties to the Company's hedge contracts discussed above, are held at financial institutions which the Company believes to be highly rated, and no credit-related losses are anticipated.

Note 13: Income Taxes

The Company has historically determined its interim income tax provision by applying the estimated effective income tax rate expected to be applicable for the full fiscal year to the income before income taxes for the period. In determining the full year estimate, the Company does not include the estimated impact of unusual and/or infrequent items, which may cause significant variations in the customary relationship between income tax expense and income before income taxes. Significant judgment is exercised in determining the income tax provision due to transactions, credits and calculations where the ultimate tax determination is uncertain.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(unaudited)

The Company's effective tax rate for the quarter ended March 30, 2018 was 10.5%, which differs from the U.S. federal income tax rate of 21% principally due to discrete benefits of $17.1 million relating to an increase in deferred tax assets expected to be realized in the foreseeable future due to the liquidation of a foreign subsidiary and $6.7 million relating to equity award excess tax benefits. These benefits are partially offset by foreign taxes for which the Company will not receive a U.S. tax credit as a result of U.S. tax reform and the Company's U.S. federal net operating loss carryforwards.

In December 2017 the SEC staff issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* ("SAB 118"), which allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As of March 30, 2018, the Company has not completed its accounting for the tax effects of the enactment of the Tax Act; however, in certain cases, specifically as follows, the Company made a reasonable estimate of (i) the effects on its existing deferred tax balances and (ii) the effects of the one-time mandatory repatriation tax. The Company recognized a provisional tax benefit of $449.9 million in the year ended December 31, 2017 associated with the items it could reasonably estimate. For the quarter ended March 30, 2018, there have not been any adjustments made to these estimates. The Company is still analyzing the Tax Act and refining its calculations, which could potentially impact the measurement of its tax balances. The Company expects to complete its analysis within the measurement period in accordance with SAB 118.

At March 30, 2018, the Company was not able to reasonably estimate, and therefore has not recorded, deferred taxes for the Global Intangible Low-Taxed Income ("GILTI") provisions of the Tax Act. The Company has not yet determined its policy election with respect to whether to record deferred taxes for basis differences expected to reverse as a result of the GILTI provisions in future periods or use the period cost method. The Company has, however, included an estimate of the current impact of GILTI in its tax provision for 2018.

The Company recognizes interest and penalties related to unrecognized tax benefits in tax expense on the Company's Consolidated Statements of Operations and Comprehensive Income. The Company had approximately $6.4 million and $5.4 million of net interest and penalties accrued at March 30, 2018 and March 31, 2017, respectively.

Although the Company cannot predict the timing of resolution with taxing authorities, if any, it believes it is reasonably possible that $13.4 million of its unrecognized tax benefits will be reduced in the next 12 months due to settlement with tax authorities or expiration of the applicable statute of limitations.

Tax years 2013 and prior are generally not subject to examination by the Internal Revenue Services (the "IRS") except for items involving tax attributes that have been carried forward to tax years whose statute of limitations remains open. The Company is not currently under IRS examination. For state tax returns, the Company is generally not subject to income tax examinations for years 2012 and prior. The Company is also subject to routine examinations by various foreign tax jurisdictions in which it operates. With respect to major jurisdictions outside the United States, the Company's subsidiaries are no longer subject to income tax audits for years prior to 2007. The Company is currently under audit in the following significant jurisdictions: China, Malaysia, Mauritius, Singapore and Vietnam.

Note 14: Changes in Accumulated Other Comprehensive Loss

Amounts comprising the Company's accumulated other comprehensive loss and reclassifications are as follows (in millions):

	Foreign Currency Translation Adjustments	Effects of Cash Flow Hedges	Total
Balance as of December 31, 2017	$ (43.2)	$ 2.6	$(40.6)
Other comprehensive income prior to reclassifications	2.4	3.7	6.1
Amounts reclassified from accumulated other comprehensive loss	—	0.1	0.1
Net current period other comprehensive income (1)	2.4	3.8	6.2
Balance as of March 30, 2018	$ (40.8)	$ 6.4	$(34.4)

(1) Effects of cash flow hedges are net of tax of $1.0 million of tax expense for the quarter ended March 30, 2018.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(unaudited)

Amounts which were reclassified from accumulated other comprehensive loss to the Company's Consolidated Statements of Operations and Comprehensive Income (net of tax of zero, in millions):

	Amounts Reclassified from Accumulated Other Comprehensive Loss		
	Quarter Ended		
	March 30, 2018	March 31, 2017	Statements of Operations and Comprehensive Income Line Item
Interest rate swaps	(0.1)	0.2	Other income and expense
Total reclassifications	$ (0.1)	$ 0.2	

Note 15: Supplemental Disclosures

Supplemental Disclosure of Cash Flow Information

The Company's non-cash activities and cash payments for interest and income taxes are as follows (in millions):

	Quarter Ended	
	March 30, 2018	March 31, 2017
Non-cash activities:		
Capital expenditures in accounts payable and other liabilities	$ 209.1	$ 125.3
Cash (received) paid for:		
Interest income	$ (0.9)	$ (0.6)
Interest expense	$ 16.6	$ 27.6
Income taxes	$ 19.1	$ 18.4

The Company adopted ASU 2016-18 on a retrospective basis during the quarter ended March 30, 2018. The following is a reconciliation of the captions in the Consolidated Balance Sheets to the Consolidated Statements of Cash Flows (in millions):

	As of			
	March 30, 2018	December 31, 2017	March 31, 2017	December 31, 2016
Consolidated Balance Sheets:				
Cash and cash equivalents	$ 924.9	$ 949.2	$ 728.9	$ 1,028.1
Restricted cash (included in other current assets)	17.4	17.4	17.7	17.7
Cash, cash equivalents and restricted cash in Consolidated Statements of Cash Flows	$ 942.3	$ 966.6	$ 746.6	$ 1,045.8

The restricted cash balance relates to the consideration held in escrow for the Aptina acquisition to be released upon satisfaction of certain outstanding items contained in the merger agreement.

Note 16: Subsequent Events

As announced on October 10, 2017, ON Semiconductor entered into an agreement to acquire a 30 percent incremental interest in Aizu Fujitsu Semiconductor Manufacturing Limited ("AFSM"), which operates an 8-inch wafer fabrication facility in Aizu-Wakamatsu. On April 1, 2018, (the "second closing date"), the purchase of such incremental interest for approximately $20.0 million in cash closed, resulting in a 40 percent ownership stake in AFSM by the Company. The Company previously held a 10 percent interest, which was accounted for as a cost method investment. Subject to the fulfillment of certain conditions, the Company will be required to increase its ownership to 60 percent between one and six months following the second closing date (the "third closing date") and will be required to increase its ownership to 100 percent between nine and 18 months following the third closing date.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with our audited historical consolidated financial statements, which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (2017 Form 10-K), filed with the SEC on

February 21, 2018, and our unaudited consolidated financial statements for the fiscal quarter ended March 30, 2018, included elsewhere in this Form 10-Q. Management's Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risk, uncertainties, and other factors. Actual results could differ materially because of the factors discussed below or elsewhere in this Form 10-Q. See Part II, Item 1A. "Risk Factors" of this Form 10-Q and Part I, Item 1A. "Risk Factors" of our 2017 Form 10-K.

Company Highlights for the Quarter Ended March 30, 2018

- Total revenues of $1,377.6 million
- Gross margin of 37.6%
- Net income of $0.31 per diluted share
- Cash and cash equivalents of $924.9 million

Executive Overview

This Executive Overview presents summary information regarding the industry, markets, business and operating trends of ON Semiconductor Corporation, which was incorporated under the laws of the State of Delaware in 1999, and its subsidiaries ("we," "us," "our," "ON Semiconductor" or the "Company"). For further information regarding the events summarized herein, see Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its entirety.

Industry Overview

We participate in unit and revenue surveys and use data summarized by WSTS (an industry research firm) to evaluate overall semiconductor market trends and to track our progress against the market in the areas we provide semiconductor components. The most recently published estimates from WSTS project a compound annual growth rate in our serviceable addressable market of approximately 5.0% through 2020. These are not our projections and may not be indicative of actual results. We, like many of our competitors, view this information as helpful third party projections and estimates.

Business Overview

ON Semiconductor is driving innovation in energy efficient electronics. Our extensive portfolio of sensors, power management, connectivity, custom and SoC, analog, logic, timing, and discrete devices helps customers efficiently solve their design challenges in advanced electronic systems and products. Our power management and motor driver semiconductor components control, convert, protect and monitor the supply of power to the different elements within a wide variety of electronic devices. Our custom ASICs and SoC devices use analog, MCU, DSP, mixed-signal and advanced logic capabilities to enable the application and uses of many of our automotive, medical, aerospace/defense, consumer and industrial customers' products. Our signal management semiconductor components provide high-performance clock management and data flow management for precision computing, communications and industrial systems. Our growing portfolio of sensors, including image sensors, optical image stabilization and auto focus devices, provide advanced solutions for automotive, wireless, industrial and consumer applications. Our standard semiconductor components serve as "building blocks" within virtually all types of electronic devices. These various products fall into the logic, analog, discrete, image sensors, IoT and memory categories used by the WSTS group.

We serve a broad base of end-user markets, including automotive, communications, computing, consumer, medical, industrial, networking, telecom and aerospace/defense. Our devices are found in a wide variety of end products including automobiles, smartphones, media tablets, wearable electronics, personal computers, servers, industrial building and home automation systems, factory automation, consumer white goods, security and surveillance systems, machine vision, LED lighting, power supplies, networking and telecom equipment, medical diagnostics, imaging and hearing health, sensor networks and robotics.

Our portfolio of devices enables us to offer advanced ICs and the "building block" components that deliver system level functionality and design solutions. We shipped approximately 17.6 billion units during the quarter ended March 30, 2018, as compared to 18.0 billion units during the quarter ended March 31, 2017. We offer micro packages, which provide increased performance characteristics while reducing the critical board space inside today's ever shrinking electronic devices and power modules, delivering improved energy efficiency and reliability for a wide variety of medium and high power applications. We believe that our ability to offer a broad range of products, combined with our applications and global manufacturing and logistics network, provides our customers with single source purchasing on a cost-effective and timely basis.

Segments

As many products are sold into different end-markets, the total revenue reported for a segment is not indicative of actual sales in the end-market associated with that segment, but rather is the sum of the revenues from the product lines assigned to that segment. From time to time, we reassess the alignment of our product families and devices to our operating segments and may move product families or individual devices from one operating segment to another.

Business and Macroeconomic Environment

The semiconductor industry has traditionally been highly cyclical, has often experienced significant downturns in connection with, or in anticipation of, declines in general economic conditions, and may experience significant uncertainty and volatility in the future. We believe our business today is driven more by secular growth drivers and not solely by macroeconomic and industry cyclicality, as was the case historically. However, in the future, we could again experience period-to-period fluctuations in operating results due to general industry or economic conditions.

We have recognized efficiencies from restructuring activities and programs and continue to implement profitability enhancement programs to improve our cost structure. We have historically reviewed, and will continue to review, our cost structure, capital investments and other expenditures to align our spending and capacity with our current sales and manufacturing projections. We have historically taken significant actions to align our overall cost structure with our expected revenue levels by focusing on synergies-related cost reductions arising from each of our acquisitions.

The U.S. government has recently proposed, among other actions, imposing new or higher tariffs on specified products imported from China in response to what it characterizes as unfair trade practices, and China has responded by proposing new or higher tariffs on specified products imported from the United States. To the extent the proposed tariffs are imposed, we may experience a material increase in the cost of our products that we import from China. This increase might also translate into an increase in the sale prices for certain of our products, the impacts of which are currently unknown.

Results of Operations

Quarter Ended March 30, 2018 compared to the Quarter Ended March 31, 2017

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements (in millions):

	Quarter Ended		
	March 30, 2018	March 31, 2017	Dollar Change
Revenues	$ 1,377.6	$ 1,436.7	$ (59.1)
Cost of revenues (exclusive of amortization shown below)	860.2	933.6	(73.4)
Gross profit	517.4	503.1	14.3
Operating expenses:			
Research and development	155.2	140.1	15.1
Selling and marketing	77.8	77.5	0.3
General and administrative	70.9	68.4	2.5
Amortization of acquisition-related intangible assets	27.4	29.1	(1.7)
Restructuring, asset impairments and other, net	0.4	0.5	(0.1)
Intangible asset impairment	—	4.4	(4.4)
Total operating expenses	331.7	320.0	11.7
Operating income	185.7	183.1	2.6
Other (expense) income, net:			
Interest expense	(31.5)	(38.4)	6.9
Interest income	0.9	0.6	0.3
Licensing income	3.8	—	3.8
Loss on debt refinancing and prepayment	—	(26.2)	26.2
Other expense	(2.0)	(4.1)	2.1
Other (expense) income, net	(28.8)	(68.1)	39.3
Income before income taxes	156.9	115.0	41.9
Income tax provision	(16.4)	(36.3)	19.9
Net income	140.5	78.7	61.8
Less: Net income attributable to non-controlling interest	(0.9)	(0.5)	(0.4)
Net income attributable to ON Semiconductor Corporation	$ 139.6	$ 78.2	$ 61.4

Revenues

During the quarter ended March 31, 2017, we were able to estimate upfront the effects of returns and allowances and record revenue at the time of sales to our distributors. This change, resulted in us recognizing an additional $155.1 million in revenue during the first quarter of 2017, which resulted in an increase of $59.0 million to gross profit and income before income taxes. The impact of this change is reflected in the discussion below.

Revenues were $1,377.6 million and $1,436.7 million for the quarters ended March 30, 2018 and March 31, 2017, respectively, representing a decrease of $59.1 million, or approximately 4%. Excluding the one-time impact of the change in revenue recognition on distributor sales for the quarter ended March 31, 2017 amounting to $155.1 million, revenue increased by $96.0 million, or approximately 7%.

Revenues by reportable segment were as follows (dollars in millions):

	Quarter Ended March 30, 2018	As a % of Total Revenues (1)	Quarter Ended March 31, 2017	As a % of Total Revenues (1)
Power Solutions Group	$ 692.6	50.3%	$ 743.8	51.8%
Analog Solutions Group	496.2	36.0%	503.6	35.1%
Image Sensor Group	188.8	13.7%	189.3	13.2%
Total revenues	$ 1,377.6		$ 1,436.7	

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

Revenues from the Power Solutions Group decreased by $51.2 million, or approximately 7%, for the quarter ended March 30, 2018 compared to the quarter ended March 31, 2017. Excluding the one-time impact of the change in revenue recognition on distributor sales for the quarter ended March 31, 2017 amounting to $107.8 million, the revenues in our Power MOSFET division increased by $35.2 million due to better demand and the revenues in our High Power division increased by $22.5 million due to entry into new markets and better demand.

Revenues from the Analog Solutions Group decreased by $7.4 million, or approximately 1%, for the quarter ended March 30, 2018 compared to the quarter ended March 31, 2017. Excluding the one-time impact of the change in revenue recognition on distributor sales for the quarter ended March 31, 2017 amounting to $42.1 million, the revenues in our Automotive division increased by $18.4 million and the revenues in our Digital and DC/DC division increased by $18.3 million, both due to better demand in the markets served.

Revenues from the Image Sensor Group decreased by $0.5 million for the quarter ended March 30, 2018 compared to the quarter ended March 31, 2017. Excluding the one-time impact of the change in revenue recognition on distributor sales for the quarter ended March 31, 2017 amounting to $5.1 million, the revenues in our Automotive solutions division increased by $19.6 million due to better demand and was partially offset by a decrease of $12.4 million in our Consumer solutions division, primarily as a result of the exit of the Mobile CIS business.

Revenues by geographic location, including local sales made by operations within each area, based on sales billed from the respective country, were as follows (dollars in millions):

	Quarter Ended March 30, 2018	As a % of Total Revenues (1)	Quarter Ended March 31, 2017	As a % of Total Revenues (1)
United States	$ 199.2	14.5%	$ 213.7	14.9%
United Kingdom	233.6	17.0%	162.3	11.3%
Hong Kong	360.9	26.2%	473.0	32.9%
Singapore	432.9	31.4%	344.2	24.0%
Other	151.0	11.0%	243.5	16.9%
Total	$ 1,377.6		$ 1,436.7	

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

For the quarters ended March 30, 2018 and March 31, 2017, no single customer, including any distributor, accounted for 10% or more of our total consolidated revenues.

Gross Profit and Gross Margin (exclusive of amortization of acquisition-related intangible assets described below)

Our gross profit by reportable segment was as follows (dollars in millions):

	Quarter Ended March 30, 2018	As a % of Segment Revenues (1)	Quarter Ended March 31, 2017	As a % of Segment Revenues (1)
Power Solutions Group	$ 239.2	34.5%	$ 244.0	32.8%
Analog Solutions Group	206.8	41.7%	209.3	41.6%
Image Sensor Group	81.7	43.3%	67.4	35.6%
Gross profit for reportable segment	$ 527.7		$ 520.7	
Unallocated manufacturing costs	(10.3)	(0.7)%	(17.6)	(1.2)%
Consolidated gross profit	$ 517.4	37.6%	$ 503.1	35.0%

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

Our gross profit was $517.4 million for the quarter ended March 30, 2018 compared to $503.1 million for the quarter ended March 31, 2017. Gross profit for the quarter ended March 31, 2017 was positively impacted by $59.0 million due to a change in revenue recognition on distributor sales and negatively impacted by $9.8 million of expensing of fair market value of inventory step-up from the Fairchild acquisition. Excluding these items, gross profit increased by $63.5 million or 14.0% for the quarter ended March 30, 2018 compared to the quarter ended March 31, 2017, and is primarily due to an increase in gross profits in our Power Solutions Group and Analog Solutions Group.

Gross profit as a percentage of revenues increased to approximately 37.6% for the quarter ended March 30, 2018 from approximately 35.0% for the quarter ended March 31, 2017. The increase was primarily due to higher factory utilization and product mix.

Operating Expenses

Research and development expenses were $155.2 million for the quarter ended March 30, 2018, compared to $140.1 million for the quarter ended March 31, 2017, representing an increase of $15.1 million, or approximately 11%. This increase was primarily in the area of payroll and payroll related costs due to increased headcount.

Selling and marketing expenses were $77.8 million for the quarter ended March 30, 2018, compared to $77.5 million for the quarter ended March 31, 2017, representing an increase of $0.3 million, or approximately 0%. There were no significant changes in any of the major expense categories.

General and administrative expenses were $70.9 million for the quarter ended March 30, 2018, compared to $68.4 million in the quarter ended March 31, 2017, representing an increase of $2.5 million, or approximately 4%. There were no significant changes in any of the major expense categories.

Other Operating Expenses

Amortization of Acquisition-Related Intangible Assets

Amortization of acquisition-related intangible assets was $27.4 million and $29.1 million for the quarters ended March 30, 2018 and March 31, 2017, respectively, representing a decrease of $1.7 million, or approximately 6%. The decrease was primarily associated with the declining amortization of our Aptina intangible assets partially offset by the increased amortization for our Fairchild intangible assets.

Restructuring, Asset Impairments and Other, Net

Restructuring, asset impairments and other, net resulted in expense of $0.4 million for the quarter ended March 30, 2018 compared to $0.5 million for the quarter ended March 31, 2017.

Intangible Asset Impairment

Intangible assets impairment was zero for the quarter ended March 30, 2018 compared to $4.4 million for the quarter ended March 31, 2017. We did not have any intangible assets impairments for the quarter ended March 30, 2018 while in the quarter ended March 31, 2017 we abandoned certain of our previously capitalized IPRD projects and recorded impairment charges of $4.4 million.

Interest Expense

Interest expense decreased by $6.9 million to $31.5 million during the quarter ended March 30, 2018 compared to $38.4 million during the quarter ended March 31, 2017 mainly due to repayments of outstanding balances. Our average gross long-term debt balance (including current maturities) for the quarter ended March 30, 2018 was $3,109.2 million at a weighted-average interest rate of approximately 4.1%, compared to $3,672.7 million at a weighted-average interest rate of approximately 4.2% for the quarter ended March 31, 2017.

Licensing Income

Licensing income was $3.8 million for the quarter ended March 30, 2018 compared to zero for the quarter ended March 31, 2017, due to payments received under various licensing agreements.

Loss on Debt Refinancing and Prepayment

Loss on debt refinancing was zero for the quarter ended March 30, 2018 compared to $26.2 million for the quarter ended March 31, 2017.

During the quarter ended March 31, 2017, we had a $20.6 million loss on prepayment of a portion of the Term Loan “B” facility and $5.6 million of debt extinguishment charges related to the refinancing of the Term Loan “B” facility.

Other

Other expense decreased by $2.1 million to $2.0 million for the quarter ended March 30, 2018 compared to $4.1 million for the quarter ended March 31, 2017, primarily attributable to an adjustment to contingent consideration partially offset by fluctuations in foreign currencies against the U.S. dollar, net of the impact of our hedging activity.

Provision for Income Taxes

We recorded an income tax provision of $16.4 million and $36.3 million during the quarters ended March 30, 2018 and March 31, 2017, respectively.

The income tax provision for the quarter ended March 30, 2018 consisted of $39.9 million for income and withholding taxes of certain of our foreign and domestic operations and $0.3 million of new interest on existing reserves for uncertain tax positions in foreign taxing jurisdictions, offset by discrete benefits of $17.1 million relating to an increase in deferred tax assets expected to be realized in the foreseeable future due to the liquidation of a foreign subsidiary and $6.7 million relating to equity award excess tax benefits.

The income tax provision for the quarter ended March 31, 2017 consisted of $40.8 million for income and withholding taxes of certain of our foreign and domestic operations, $0.3 million of new interest on existing reserves for uncertain tax positions in foreign taxing jurisdictions, offset by a discrete benefit of $4.8 million relating to equity award excess tax benefits.

We expect our future effective tax rate, before discrete items, to be between 23% and 27%, until we fully utilize all of our U.S. federal net operating losses. The primary difference between our estimated future effective tax rate and the federal statutory rate of 21% is due to disallowed foreign taxes for which we will not receive a U.S. tax benefit as a result of U.S. tax reform. The change in our future effective tax rate is not anticipated to have an effect on our cash tax until all of our U.S. federal net operating losses and credits have been utilized.

Liquidity and Capital Resources

This section includes a discussion and analysis of our cash requirements, off-balance sheet arrangements, contingencies, sources and uses of cash, operations, working capital, and long-term assets and liabilities.

Contractual Obligations

As of March 30, 2018, there were no material changes outside of the ordinary course of business to the contractual obligations table, including the notes thereto, contained in our 2017 Form 10-K. See Note 10: “Commitments and Contingencies” for information on operating leases and financing activities (including certain information with respect to our Revolving Credit Facility) and Note 6: “Balance Sheet Information” for information with respect to pension plan information, in each case, in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Our balance of cash and cash equivalents was $924.9 million as of March 30, 2018. We believe that our cash flows from operations, coupled with our existing cash and cash equivalents, will be adequate to fund our operating and capital needs for at least the next 12 months. Total cash and cash equivalents as of March 30, 2018 include approximately $221.0 million available within the United States. While we hold a significant amount of cash and cash equivalents outside the United States in various foreign subsidiaries, we have the ability to obtain cash in the United States through distributions from our foreign subsidiaries in order to cover our domestic needs, by utilizing existing credit facilities, or through new bank loans or debt obligations.

During the quarter ended March 30, 2018, we recorded the outstanding balance, net of discount, of $625.0 million of the 1.00% Notes as a current portion of long-term debt. See Note 7: “Long-Term Debt” in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for further information with respect to our long-term debt.

Off-Balance Sheet Arrangements

In the ordinary course of business, we enter into various operating leases for buildings and equipment, including our mainframe computer system, desktop computers, communications, foundry equipment and service agreements relating to this equipment.

In the ordinary course of business, we provide standby letters of credit or other guarantee instruments to certain parties initiated by either our subsidiaries or us, as required for transactions including, but not limited to: material purchase commitments, agreements to mitigate collection risk, leases, utilities or customs guarantees. As of March 30, 2018, our Revolving Credit Facility included $15.0 million of availability for the issuance of letters of credit. There were $0.4 million of letters of credit outstanding under our Revolving Credit Facility as of March 30, 2018. We also had outstanding guarantees and letters of credit outside of our Revolving Credit Facility of $6.4 million as of March 30, 2018, which reduces our borrowing capacity.

As part of securing financing in the ordinary course of business, we have issued guarantees related to certain of our capital lease obligations, equipment financing, lines of credit and real estate mortgages, which totaled $113.9 million as of March 30, 2018. Based on historical experience and information currently available, we believe that we will not be required to make payments under the standby letters of credit or guarantee arrangements for the foreseeable future.

For our operating leases, we expect to make cash payments and similarly incur expenses totaling $176.2 million as payments come due. We have not recorded any liability in connection with these operating leases, letters of credit and guarantee arrangements. See Note 7: ‘‘Long-Term Debt’’ and Note 10: “Commitments and Contingencies” in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for additional information.

Contingencies

We are a party to a variety of agreements entered into in the ordinary course of business pursuant to which we may be obligated to indemnify other parties for certain liabilities that arise out of or relate to the subject matter of the agreements. Some of the agreements entered into by us require us to indemnify the other party against losses due to IP infringement, property damage including environmental contamination, personal injury, failure to comply with applicable laws, our negligence or willful misconduct, or breach of representations and warranties and covenants related to such matters as title to sold assets.

We face risk of exposure to warranty and product liability claims in the event that our products fail to perform as expected or such failure of our products results, or is alleged to result, in economic damage, bodily injury or property damage. In addition, if any of our designed products are alleged to be defective, we may be required to participate in their recall. Depending on the significance of any particular customer and other relevant factors, we may agree to provide more favorable rights to such customer for valid defective product claims.

We maintain directors’ and officers’ insurance policies that indemnify our directors and officers against various liabilities, including certain liabilities under the Exchange Act, that might be incurred by any director or officer in his or her capacity as such.

The Fairchild Agreement provides for indemnification and insurance rights in favor of Fairchild's then current and former directors, officers and employees. Specifically, the Company has agreed that, for no fewer than six years following the Fairchild acquisition, the Company will: (a) indemnify and hold harmless each such indemnitee against losses and expenses (including advancement of attorneys' fees and expenses) in connection with any proceeding asserted against the indemnified party in connection with such person's servings as a director, officer, employee or other fiduciary of Fairchild or its subsidiaries prior to the effective time of the acquisition; (b) maintain in effect all provisions of the certificate of incorporation or bylaws of Fairchild or any of its subsidiaries or any other agreements of Fairchild or any of its subsidiaries with any indemnified party regarding elimination of liability, indemnification of officers, directors and employees and advancement of expenses in existence on the date of the Fairchild Agreement for acts or omissions occurring prior to the effective time of the acquisition and; (c) subject to certain qualifications, provide to Fairchild's then current directors and officers an insurance and indemnification policy that provides coverage for events occurring prior to the effective time of the acquisition that is no less favorable than Fairchild's then-existing policy, or, if insurance coverage that is no less favorable is unavailable, the best available coverage.

While our future obligations under certain agreements may contain limitations on liability for indemnification, other agreements do not contain such limitations and under such agreements it is not possible to predict the maximum potential amount of future payments due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under any of these indemnities have not had a material effect on our business, financial condition, results of operations or cash flows, and we do not believe that any amounts that we may be required to pay under these indemnities in the future will be material to our business, financial condition, results of operations or cash flows.

See Note 10: "Commitments and Contingencies" in the notes to our unaudited consolidated financial statements under the heading "Legal Matters" included elsewhere in this Form 10-Q for possible contingencies related to legal matters. See also Part I, Item 1 "Business - Government Regulation" of our 2017 Form 10-K for information on certain environmental matters.

Sources and Uses of Cash

We require cash to fund our operating expenses and working capital requirements, including outlays for strategic acquisitions and investments, research and development, to make capital expenditures, to repurchase our common stock and other Company securities, and to pay debt service, including principal and interest and capital lease payments. Our principal sources of liquidity are cash on hand, cash generated from operations and funds from external borrowings and equity issuances. In the near term, we expect to fund our primary cash requirements through cash generated from operations and cash and cash equivalents on hand. We also have the ability to utilize our Revolving Credit Facility.

As part of our business strategy, we review acquisition and divestiture opportunities and proposals on a regular basis. During the quarter ended March 30, 2018, we did not complete any acquisitions or divestitures.

We believe that the key factors that could affect our internal and external sources of cash include:

- Factors that affect our results of operations and cash flows, including the impact on our business and operations as a result of changes in demand for our products, competitive pricing pressures, effective management of our manufacturing capacity, our ability to achieve further reductions in operating expenses, the impact of our restructuring programs on our production and cost efficiency and our ability to make the research and development expenditures required to remain competitive in our business; and
- Factors that affect our access to bank financing and the debt and equity capital markets that could impair our ability to obtain needed financing on acceptable terms or to respond to business opportunities and developments as they arise, including interest rate fluctuations, macroeconomic conditions, sudden reductions in the general availability of lending from banks or the related increase in cost to obtain bank financing, and our ability to maintain compliance with covenants under our debt agreements in effect from time to time.

Our ability to service our long-term debt, including our 1.625% Notes, 1.00% Notes, Revolving Credit Facility and Term Loan "B" Facility, to remain in compliance with the various covenants contained in our debt agreements and to fund working capital, capital expenditures and business development efforts will depend on our ability to generate cash from operating activities, which is subject to, among other things, our future operating performance, as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may be beyond our control.

If we fail to generate sufficient cash from operations, we may need to raise additional equity or borrow additional funds to achieve our longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us. We believe that cash flow from operating activities coupled with existing cash and cash equivalents and existing credit facilities will be adequate to fund our operating and capital needs, as well as enable us to maintain compliance with our various debt agreements, through at least the next 12 months. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

During the ordinary course of business, we evaluate our cash requirements and, if necessary, adjust our expenditures for inventory, operating expenditures and capital expenditures to reflect the current market conditions and our projected sales and demand. Our capital expenditures are primarily directed toward production equipment and capacity expansion. Our capital expenditure levels can materially influence our available cash for other initiatives. For example, during the quarter ended March 30, 2018, we paid approximately $99.5 million for capital expenditures, while during the quarter ended March 31, 2017, we paid approximately $52.7 million for capital expenditures. Our current minimum capital expenditure contractual commitment for the remainder of 2018 is approximately $122.6 million. Our current minimum contractual capital expenditure commitment for 2019 and thereafter is approximately $32.8 million. Our capital expenditures have historically been approximately 6% to 7% of annual revenues, and we expect to continue to incur capital expenditures to support our business activities. Future capital expenditures may be impacted by events and transactions that are not currently forecasted.

Primary Cash Flow Sources

Our long-term cash generation is dependent on the ability of our operations to generate cash. Our cash flows from operating activities were approximately $226.5 million and approximately $208.5 million for the quarters ended March 30, 2018 and March 31, 2017, respectively. The increase of $18.0 million was primarily attributable to better results of operations and the change in working capital during the period. Our ability to maintain positive operating cash flows is dependent on, among other factors, our success in achieving our revenue goals and manufacturing and operating cost targets.

Our management of our assets and liabilities, including both working capital and long-term assets and liabilities, also influences our operating cash flows, and each of these components is discussed below.

Working Capital

Working capital, calculated as total current assets less total current liabilities, fluctuates depending on end-market demand and our effective management of certain items such as receivables, inventory and payables. In times of escalating demand, our working capital requirements may be affected as we purchase additional manufacturing materials and increase production. Our working capital may also be affected by restructuring programs, which may require us to use cash for severance payments, asset transfers and contract termination costs. In addition, our working capital may be affected by acquisitions and transactions involving our convertible notes and other debt instruments. Our working capital, excluding cash and cash equivalents, was $97.1 million at March 30, 2018 and has fluctuated between $668.2 million and $97.1 million at the end of each of our last six fiscal quarters. Our working capital, including cash and cash equivalents was $1,022.0 million at March 30, 2018 and has fluctuated between $1,524.3 million and $1,022.0 million at the end of each of our last six fiscal quarters.

Although investments made to fund working capital will reduce our cash balances, these investments are necessary to support business and operating initiatives. During the quarter ended March 30, 2018, our working capital was most significantly impacted by the reclassification of the 1.00% Notes to current portion of long-term debt and our capital expenditures, including capital leases. See Note 7: “Long-Term Debt” in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for additional information on the reclassification of the 1.00% Notes.

Long-Term Assets and Liabilities

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

Our manufacturing rationalization plans have included efforts to utilize our existing manufacturing assets and supply arrangements more efficiently. We believe that near-term access to additional manufacturing capacity, should it be required, could be readily obtained on reasonable terms through manufacturing agreements with third parties. We will continue to look for opportunities to make strategic purchases in the future for additional capacity.

Our long-term liabilities, excluding long-term debt and deferred taxes, consist of liabilities under our foreign defined benefit pension plans and contingent tax reserves. In regard to our foreign defined benefit pension plans, generally, our annual funding of these obligations is equal to the minimum amount legally required in each jurisdiction in which the plans operate. This annual amount is dependent upon numerous actuarial assumptions. For additional information, see Note 6: "Balance Sheet Information" and Note 13: "Income Taxes" in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Key Financing and Capital Events

Overview

For the past several years, we have undertaken various measures to secure liquidity to pursue acquisitions, repurchase shares of our common stock, reduce interest costs, amend existing key financing arrangements and, in some cases, extend a portion of our debt maturities to continue to provide us additional operating flexibility. Set forth below is a summary of certain key financing events affecting our capital structure.

Cash Management

Our ability to manage cash is limited, as our primary cash inflows and outflows are dictated by the terms of our sales and supply agreements, contractual obligations, debt instruments and legal and regulatory requirements. While we have some flexibility with respect to the timing of capital equipment purchases, we must invest in capital equipment on a timely basis to allow us to maintain our manufacturing efficiency and support our platforms for new products.

Debt Guarantees and Related Covenants

As of March 30, 2018, we were in compliance with the indentures relating to our 1.00% Notes and 1.625% Notes and with covenants relating to our Term Loan "B" Facility, Revolving Credit Facility and our other debt agreements. Our 1.00% Notes are senior to the existing and future subordinated indebtedness of ON Semiconductor and its guarantor subsidiaries. Our 1.625% Notes rank equally in right of payment to all of the Company's existing and future senior debt and are subordinated to all of the Company's existing and future secured debt. See Note 7: "Long-Term Debt" in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for additional information.

Critical Accounting Policies and Estimates

The accompanying discussion and analysis of our financial condition and results of operations is based upon our unaudited consolidated interim financial statements included elsewhere in this Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. Except with respect to our revenue recognition practices included in Note 1: "Background and Basis of Presentation" under the heading "Revenue Recognition Policy" in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q, there have been no changes to the critical accounting policies as explained in Part 1, Item 7 of the 2017 Form 10-K under the heading "Critical Accounting Policies and Estimates."

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 3: "Recent Accounting Pronouncements" in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. To mitigate these risks, we utilize derivative financial instruments. We do not use derivative financial instruments for speculative or trading purposes.

As of March 30, 2018, our long-term debt (including current maturities) totaled $3,043.5 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $2,051.3 million as of March 30, 2018. We do have interest rate exposure with respect to the $992.2 million balance of our variable interest rate debt outstanding as of March 30, 2018. A 50 basis point increase in interest rates, including the impact of interest rate swaps, would impact our expected annual interest expense for the next 12 months by approximately $5.0 million. However, some of this impact would be offset by additional interest earned on our cash and cash equivalents should rates on deposits and investments also increase. We entered into interest rate swaps to hedge some of the risk of variability in cash flows resulting from future interest payments on our variable interest rate debt under the Term Loan "B" Facility.

Except as described above, our exposure to market risk from December 31, 2017 to March 30, 2018 has not changed materially from the information provided in our 2017 Form 10-K.

To ensure the adequacy and effectiveness of our foreign exchange hedge positions, we continually monitor our foreign exchange forward positions, both on a stand-alone basis and in conjunction with their underlying foreign currency exposures, from an accounting and economic perspective. However, given the inherent limitations of forecasting and the anticipatory nature of exposures intended to be hedged, we cannot provide any assurances that such programs will offset more than a portion of the adverse financial impact resulting from unfavorable movements in foreign exchange rates.

We are subject to risks associated with transactions that are denominated in currencies other than our functional currencies, as well as the effects of translating amounts denominated in a foreign currency to the U.S. dollar as a normal part of the reporting process. After the change in functional currency for some of our Japanese subsidiaries from Japanese Yen to the U.S. dollar, the remaining Japanese operations continue to utilize Japanese Yen as the functional currency, which results in a translation adjustment that is included as a component of accumulated other comprehensive income.

We enter into forward foreign currency contracts that economically hedge the gains and losses generated by the re-measurement of certain recorded assets and liabilities in a non-functional currency. Changes in the fair value of these undesignated hedges are recognized in other income and expense immediately as an offset to the changes in the fair value of the assets or liabilities being hedged. The notional amount of foreign exchange contracts at March 30, 2018 and December 31, 2017 was $115.6 million and $130.5 million, respectively. Our policies prohibit speculation on financial instruments, trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure.

Substantially all of our revenue is transacted in U.S. dollars. However, a significant amount of our operating expenditures and capital purchases are transacted in local currencies, including Japanese Yen, Euros, Korean Won, Malaysian Ringgit, Philippines Peso, Singapore Dollars, Swiss Francs, Chinese Renminbi, and Czech Koruna. Due to the materiality of our transactions in these local currencies, our results are impacted by changes in currency exchange rates measured against the U.S. dollar. For example, we determined that based on a hypothetical weighted-average change of 10% in currency exchange rates, our results would have impacted our income before taxes by approximately $24.8 million as of March 30, 2018, assuming no offsetting hedge positions or correlated activities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

We also carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the fiscal quarter ended March 30, 2018.

There have been no changes to our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended March 30, 2018 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

See Note 10: “Commitments and Contingencies” under the heading “Legal Matters” in the notes to the consolidated unaudited financial statements included elsewhere in this Form 10-Q for legal proceedings and related matters. See also Part I, Item 1 “Business - Government Regulation” of our 2017 Form 10-K for information on certain environmental matters.

Item 1A. Risk Factors

Our business, financial condition and results of operations are subject to a number of trends, risks and uncertainties. We review and, where applicable, update our risk factors each quarter. Except for the trends, risks and uncertainties described below related to tariffs, there have been no material changes from the risk factors disclosed in Part I, Item 1A of our annual report on our 2017 Form 10-K.

This Form 10-Q includes “forward-looking statements,” as that term is defined in Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q could be deemed forward-looking statements, particularly statements about our plans, strategies and prospects under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “will,” “intends,” “plans,” or “anticipates,” or by discussions of strategy, plans or intentions. All forward-looking statements in this Form 10-Q 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); risks related to our ability to meet our assumptions regarding outlook for revenues and gross margin as a percentage of revenue; 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 IP 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; risks associated with our acquisition of Fairchild and with other acquisitions and dispositions, including our ability to realize the anticipated benefits of our acquisitions and dispositions; risks that acquisitions or dispositions may disrupt our current plans and operations, the risk of unexpected costs, charges or expenses resulting from acquisitions or dispositions and difficulties arising from integrating and consolidating acquired businesses, our timely filing of financial information with the SEC for acquired businesses and our ability to accurately predict the future financial performance of acquired businesses; 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 restructurings; 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 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 changes in trade policies, foreign employment and labor matters associated with unions and collective bargaining arrangements, as well as man-made and/or natural disasters affecting our operations or financial results; the threat or occurrence of international armed conflict and terrorist activities both in the United States and internationally; risks of changes in U.S. or international tax rates or legislation, including the impact of the recent U.S. tax legislation; 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 affect our future results or events are described from time to time in our SEC reports. 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. Additional factors that could affect our future results or events are described under Part I, Item 1A “Risk Factors” in our 2017 Form 10-K, and from time to time in our other SEC reports. You should carefully consider the trends, risks and uncertainties described in this Form 10-Q, Part I, Item 1A of our 2017 Form 10-K and subsequent 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. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Changes in government trade policies could increase the cost of our products, which may materially adversely affect our sales or profitability.

The U.S. government has recently proposed, among other actions, imposing new or higher tariffs on specified products imported from China in response to what it characterizes as unfair trade practices, and China has responded by proposing new or higher tariffs on specified products imported from the United States. On April 6, 2018, the Office of the United States Trade Representative published a notice of determination and request for public comment under Section 301 under the Trade Act of 1974 (the "Notice") concerning the proposed imposition of an additional 25% tariff on specified products from China, which products comprised approximately $50.0 billion in estimated annual trade value for calendar year 2018. The list of products set forth in the Notice included transistors and other products that we import from China as part of our supply chain. The proposed tariffs and list of products set forth in the Notice are subject to change, including through a notice and comment period. To the extent the proposed tariffs are imposed or extended to encompass additional products that we import from China, we may experience a material increase in the cost of our products, which may result in our products becoming less attractive relative to products offered by our competitors. In addition, future actions or escalations by either the United States or China that affect trade relations may also impact our business, or that of our suppliers or customers, and we cannot provide any assurances as to whether such actions will occur or the form that they may take. To the extent that our sales or profitability are negatively affected by any such tariffs or other trade actions, our business and results of operations may be materially adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding repurchases of our common stock during the quarter ended March 30, 2018.

Period (1)	Total Number of Shares Purchased (2)	Average Price Paid per Share ($) (3)
January 1, 2018 - January 26, 2018	15,484	$ 22.80
January 27, 2018 - February 23, 2018	12,860	23.14
February 24, 2018 - March 30, 2018	718,777	25.24
Total	747,121	$ 25.15

(1) These time periods represent our fiscal month start and end dates for the first quarter of 2018.
(2) The number of shares purchased represents shares of common stock held by employees who tendered owned shares of common stock to the Company to satisfy the employee withholding taxes due upon the vesting of RSUs.
(3) The price per share is based on the fair market value at the time of tender.

Share Repurchase Program

We did not repurchase any of our common stock under our share repurchase program during the quarter ended March 30, 2018.

Under the share repurchase program we announced in December 2014 (the "2014 Share Repurchase Program"), we may repurchase up to $1.0 billion (exclusive of fees, commissions and other expenses) of our common stock over a period of four years from December 1, 2014, subject to certain contingencies. We may repurchase our common stock from time to time in privately negotiated transactions or open market transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and Rule 10b-18 of the Exchange Act, or by any combination of such methods or other methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations, the availability of capital and other market and economic conditions. The 2014 Share Repurchase Program does not require us to purchase any particular amount of common stock and is subject to a variety of factors including the Board's discretion. As of March 30, 2018, $603.2 million of the total authorized amount remained available to repurchase common stock pursuant to the 2014 Share Repurchase Program.

See Note 8: "Earnings Per Share and Equity" of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for further information on shares of common stock tendered to the Company by employees to satisfy applicable employee withholding taxes due upon vesting of RSUs and the 2014 Share Repurchase Program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	Exhibit Description*
10.1	Performance-Based Restricted Stock Units Award Agreement under the ON Semiconductor Corporation Amended and Restated Stock Incentive Plan (2018 form of Performance-Based Award for Senior Vice Presidents and Above)(1)(2)
10.2	Restricted Stock Units Award Agreement under the ON Semiconductor Corporation Amended and Restated Stock Incentive Plan (2018 form agreement for Senior Vice Presidents and Above)(1)(2)
31.1	Certification by CEO pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002(1)
31.2	Certification by CFO pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002(1)
32	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(3)
101.INS	XBRL Instance Document(1)
101.SCH	XBRL Taxonomy Extension Schema Document(1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document(1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document(1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document(1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document(1)

* Reports filed under the Exchange Act (Form 10-K, Form 10-Q and Form 8-K) are filed under File No. 000-30419.

(1) Filed herewith.

(2) Management contract or compensatory plan, contract or arrangement.

(3) Furnished herewith.

SIGNATURES

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

ON SEMICONDUCTOR CORPORATION
(Registrant)

Date: April 30, 2018

By: /s/ BERNARD GUTMANN
Bernard Gutmann
Executive Vice President, Chief Financial Officer & Treasurer
(Principal Financial Officer and officer duly authorized to sign this report)

By: /s/ BERNARD R. COLPITTS JR.
Bernard R. Colpitts Jr.
Chief Accounting Officer
(Principal Accounting Officer and officer duly authorized to sign this report)

Exhibit 10.1

ON SEMICONDUCTOR CORPORATION
AMENDED AND RESTATED STOCK INCENTIVE PLAN
PERFORMANCE-BASED RESTRICTED STOCK UNITS AWARD AGREEMENT

ON Semiconductor Corporation, a Delaware Corporation ("Company"), hereby grants to (“Grantee”), a Participant in the ON Semiconductor Corporation Amended and Restated Stock Incentive Plan, as amended from time-to-time ("Plan"), a Performance-Based Restricted Stock Units Award ("Award") for Units ("Units") representing shares of the common stock of the Company ("Stock"). This agreement to grant Stock Units ("Grant Agreement") is made effective as of the **5th day of March, 2018** ("Grant Date"). If Grantee is a Covered Employee, this Award is designated as a "Performance Compensation Award" and as such is granted pursuant to Article 11 of the Plan.

RECITALS

A. The Board of Directors of the Company ("Board") has adopted the Plan as an incentive to retain employees, officers, and non-employee Directors of, and Consultants to, the Company and to enhance the ability of the Company to attract, retain and motivate individuals upon whose judgment, interest and special effort the successful conduct of the Company's operation is largely dependent.

B. Under the Plan, the Board has delegated its authority to administer the Plan to the Compensation Committee of the Board ("Committee").

C. The Committee has approved the granting of Units to the Grantee pursuant to the Plan to provide an incentive to the Grantee to focus on the long-term growth of the Company.

D. To the extent not specifically defined herein or in the Grantee's employment agreement or comparable agreement, as amended from time to time ("Employment Agreement"), all capitalized terms used in this Grant Agreement shall have the meaning set forth in the Plan unless a contrary meaning is set forth in the Employment Agreement.

In consideration of the mutual covenants and conditions hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Grantee agree as follows:

1. **<u>Grant of Units</u>**. The Company hereby grants to the Grantee a Performance-Based Restricted Stock Units Award for Units, representing the right to receive payment of the same number of shares of Stock, subject to the terms and conditions of this Grant Agreement and the provisions of the Plan, which terms are incorporated herein by reference.

2. Earning Units, Performance Multiplier and Related Information.

2.1 Earning Units. Subject to the terms and conditions set forth in this Grant Agreement, the Grantee shall be entitled to receive payment for the number of Units earned by the Grantee over the six consecutive fiscal quarter period beginning with the quarter commencing January 1, 2018 ("Performance Measurement Period"). The number of Units earned pursuant to this Grant Agreement is a function of the extent to which the corresponding Performance Goals described in the table below are achieved.

PERFORMANCE GOALS

Performance Level	Adjusted Non-GAAP EBITDA (in Millions)	Percentage of Units Earned
Target	$ 2,000	100%
Threshold or Below	$ 1,600	0%

If the Company's Adjusted Non-GAAP EBITDA (defined below) for the Performance Measurement Period is equal to or less than the Threshold performance level ($1,600 million), no Units will be earned at the end of the Performance Measurement Period. If the Company's Adjusted Non-GAAP EBITDA for the Performance Measurement Period exceeds the Threshold performance level ($1,600 million), but is less than the Target performance level ($2,000 million), the number of Units earned at the end of the Performance Measurement Period will be determined by applying straight line interpolation between the Threshold performance level ($1,600 million) and Target performance level ($2,000 million). If the Company's Adjusted Non-GAAP EBITDA for the Performance Measurement Period equals or exceeds the Target performance level ($2,000 million), all of the Units will be earned at the end of the Performance Measurement Period. Any Units that are unearned pursuant to Section 2.1 and Section 2.4 at the end of the Performance Measurement Period will be forfeited on the date the Company files its Form 10-Q for Q2 of fiscal year 2019. The number of earned Units that will become vested shall be determined pursuant to Section 3 below. Whether the Adjusted Non-GAAP EBITDA Performance Goal for the Performance Measurement Period has been achieved shall be determined by the Company or Committee, as applicable, pursuant to Section 2.8 below.

2.2 Adjusted Non-GAAP EBITDA Performance Goal Defined. For purposes of this Agreement, "Adjusted Non-GAAP EBITDA" shall mean the Company's consolidated GAAP net income for the Performance Measurement Period, as adjusted in accordance with Section 2.3. If the Committee determines that an alternative method would be more appropriate to achieve the objectives of this Award then such method shall be communicated to the Grantee and applied to determine Adjusted Non-GAAP EBITDA for the Performance Measurement Period; provided, however, if the Grantee is a Covered Employee, the Committee's determination must be made before the date that is 90 days after the commencement of the Performance Measurement Period. For purposes of this Agreement, the term "GAAP" means United States generally accepted accounting principles consistently applied.

2.3 Adjustments to GAAP Net Income. If applicable to the Company for purposes of calculating Adjusted Non-GAAP EBITDA for the Performance Measurement

Period, the Company, or Committee if the Grantee is a Covered Employee, shall adjust GAAP net income to exclude the following:

i. restructuring, asset impairments and other, net;

ii. goodwill and intangible asset impairment;

iii. interest expense and interest income;

iv. income tax provision;

v. acquisition and divestiture related costs;

vi. gains or losses (expenses or income) on business dispositions (including divestiture, licensing or similar arrangements);

vii. net income attributable to non-controlling interests;

viii. depreciation and amortization;

ix. actuarial gains or losses on pension plans and other pension benefits;

x. gain or loss on debt repurchase, debt exchange, early extinguishment of debt, etc.;

xi. expensing of inventory fair market value step up; and

xii. unusual/non-recurring material items;

provided, however, that if the Grantee is a Covered Employee any adjustment for unusual/non-recurring material items shall not increase the amount payable for the Award. For the avoidance of doubt, Adjusted Non-GAAP EBITDA shall specifically include merger and acquisition related operations and activities of the Company.

2.4 **Performance Multiplier**. If the Company's Adjusted Non-GAAP EBITDA for the Performance Measurement Period equals or exceeds the Target performance level ($2,000 million), the Company, or the Committee with respect to grants to employees who are Covered Employees, shall increase the number of Units earned pursuant to Section 2.1 by multiplying the earned Units by a performance multiplier determined based on the achievement of the Performance Goals described in the table below (the "Performance Multiplier").

PERFORMANCE MULTIPLIER GOALS

Performance Multiplier Goal	Threshold	Stretch	Threshold Performance Multiplier	Stretch Performance Multiplier
Market Share	7.215% of Comparator Group Market Share	7.530% of Comparator Group Market Share	100%	150%
Free Cash Flow	$975M	$1,250M	100%	150%

If the Company's Market Share at the conclusion of the Performance Measurement Period equals or is less than the Threshold Market Share (7.215% of Comparator Group Market Share), no Performance Multiplier shall apply to the Market Share portion. If the Company's Market Share at the conclusion of the Performance Measurement Period exceeds the Threshold Market Share (7.215% of Comparator Group Market Share), but is less than the Stretch Market Share (7.530% of Comparator Group Market Share), the applicable Performance Multiplier will be determined

by applying straight line interpolation between the Threshold Performance Multiplier (100%) and Stretch Performance Multiplier (150%). If the Company's Market Share at the conclusion of the Performance Measurement Period equals or exceeds the Stretch Market Share (7.530% of Comparator Group Market Share), the Performance Multiplier shall be 150%. Similarly, if the Company's Free Cash Flow for the Performance Measurement Period equals or is less than the Threshold Free Cash Flow ($975 million), no Performance Multiplier shall apply to the Free Cash Flow portion. If the Company's Free Cash Flow for the Performance Measurement Period exceeds the Threshold Free Cash Flow ($975 million) but is less than the Stretch Free Cash Flow ($1,250 million), the applicable Performance Multiplier will be determined by applying straight line interpolation between the Threshold Performance Multiplier (100%) and Stretch Performance Multiplier (150%). If the Company's Free Cash Flow for the Performance Measurement Period equals or exceeds the Stretch Free Cash Flow ($1,250 million), the Performance Multiplier shall be 150%. For the avoidance of doubt, the Units granted under this Award shall not exceed twice the Units earned pursuant to Section 2.1. Whether the Market Share Goal and/or Free Cash Flow Goal for the Performance Measurement Period have been achieved shall be determined by the Company or Committee, as applicable, pursuant to Section 2.8 below.

2.5 **Market Share Performance Goal Defined**. The "Market Share" for the Company shall be determined by dividing the Company's "Performance Measurement Period Revenue" by the aggregate "Performance Measurement Period Revenue" for all members of the Comparator Group (including the Company), calculated taking into account any timely adjustments made in accordance with Section 2.7. For this purpose, the Company's and any other Comparator Group member's "Performance Measurement Period Revenue" is the Company's or other member's publicly reported total revenue (which, for the avoidance of doubt, shall include any revenue attributable to any merger and acquisition activity) for its six most recently completed fiscal quarters for which it has publicly reported revenue information, determined as of the Determination Date (as defined below). For purposes of this Agreement, the "Comparator Group" shall consist of the Company, Analog Devices, Diodes, Fairchild, Infineon, Intersil, Linear Technology, Maxim, NXP, Renesas (semiconductor revenues only), Rohm (semiconductor revenues only), STM, Texas Instruments, Vishay (semiconductor revenues only) and Sony Image Sensor. If the Committee determines that an alternative method of calculating the Company's Market Share would be more appropriate to achieve the objectives of this Award, then such method shall be communicated to the Grantee and applied to determine the Company's Market Share for the Performance Measurement Period; provided, however, if the Grantee is a Covered Employee, the Committee's determination must be made before the date that is 90 days after the commencement of the Performance Measurement Period. For any member of the Comparator Group who reports in a currency other than United States Dollars, the United States Dollars revenue as reported by Bloomberg as such member's Performance Measurement Period Revenue shall be used.

2.6 **Free Cash Flow Performance Goal Defined**. For purposes of this Agreement, "Free Cash Flow" shall mean the Company's publicly reported net cash flow from operating activities less purchases of property, plant, and equipment under its investing activities for the Performance Measurement Period. If the Committee determines that an alternative method of calculating its Free Cash Flow would be more appropriate to achieve the objectives of this Award, then such method shall be communicated to the Grantee and applied to determine

Free Cash Flow for the Performance Measurement Period; provided, however, if the Grantee is a Covered Employee, the Committee's determination must be made before the date that is 90 days after the commencement of the Performance Measurement Period.

2.7 **Adjustments to Market Share Performance Goal**. The Company's Market Share shall be calculated on August 1, 2019 (the "Determination Date") or any earlier date as of which all Comparator Group members have publicly reported their Performance Measurement Period Revenue. If by the Determination Date a Comparator Group member has not publicly reported its revenue for the Performance Measurement Period, the total Comparator Group Performance Measurement Period Revenue will be recalculated using such Comparator Group member's total revenue (calculated in accordance with Section 2.5) for the trailing 18 consecutive months for which such Comparator Group member has publicly reported revenue information.

2.8 **Final Determination of Performance Goals Attained**. The Company, or the Committee with respect to grants to employees who are Covered Employees, shall be responsible for determining in good faith whether, and to what extent, the Performance Goals set forth in this Grant Agreement have been achieved. The Company, or the Committee, as applicable, may reasonably rely on information from, and representations by, individuals within the Company in making such determination and when made such determination shall be final and binding on the Grantee.

3. **Vesting of Earned Units**. Subject to Section 4 below, the Units earned pursuant to Section 2.1 and Section 2.4 (collectively, the "Total Earned Units"), shall vest on the following dates (each a "Vesting Date") as follows:

3.1 One-half of the Total Earned Units will vest on the date the Company files its Form 10-Q for Q2 of fiscal year 2019; and

3.2 An additional one-half of the Total Earned Units will vest on the third anniversary of the Grant Date.

EXAMPLE OF THE EARNING AND VESTING OF UNITS *(for illustrative purposes only)*: Assume you are granted 1,000 Units.

- If the Company's Adjusted Non-GAAP EBITDA for the Performance Measurement Period equals or is less than the Threshold performance level, no Units will be earned and all 1,000 Units will be forfeited on the date the Company files its Form 10-Q for Q2 of fiscal year 2019.
- If the Company's Adjusted Non-GAAP EBITDA for the Performance Measurement Period is at the mid-point between the Threshold and Target performance levels (i.e., $1,800 million of Adjusted Non-GAAP EBITDA), 500 Units will be earned at the end of the Performance Measurement Period. The remaining 500 Units will be forfeited on the date the Company files its Form 10-Q for Q2 of fiscal year 2019. The 500 earned Units will then vest as follows: (i) 250 Units will vest on the date the Company files its Form 10-Q for Q2 of fiscal year 2019; and (ii) 250 Units will vest on the third anniversary of the Grant Date.

- If the Company's: (i) Adjusted Non-GAAP EBITDA for the Performance Measurement Period equals or exceeds 100% of the Target performance level (i.e., $2,000 million of Adjusted Non-GAAP EBITDA); (ii) Market Share at the conclusion of the Performance Measurement Period equals or is less than the Threshold performance level; and (iii) Free Cash Flow equals or is less than the Threshold Performance level, 1,000 Units will be earned at the end of the Performance Measurement Period but **no** Performance Multiplier shall apply. The 1,000 earned Units will then vest as follows: (i) 500 Units will vest on the date the Company files its Form 10-Q for Q2 of fiscal year 2019; and (ii) 500 Units will vest on the third anniversary of the Grant Date.
- If the Company's: (i) Adjusted Non-GAAP EBITDA for the Performance Measurement Period equals or exceeds 100% of the Target performance level (i.e., $2,000 million of Adjusted Non-GAAP EBITDA); (ii) Market Share at the conclusion of the Performance Measurement Period equals or is less than the Threshold performance level; and (iii) Free Cash Flow equals or exceeds 100% of the Stretch Performance level, 1,000 Units will be earned at the end of the Performance Measurement Period (based on the achievement of Adjusted Non-GAAP EBITDA) **and** a 150% Stretch Performance Multiplier shall apply, resulting in a total of 1,500 Total Earned Units (1,000 x 1.5). The 1,500 Total Earned Units will then vest as follows: (i) 750 Units will vest on the date the Company files its Form 10-Q for Q2 of fiscal year 2019; and (ii) 750 Units will vest on the third anniversary of the Grant Date.

4. Termination of Employment.

4.1 General. Subject to the provisions of Section 4.2 and Section 4.3 below, if the Grantee terminates employment with the Company for any reason (including upon a termination for Cause), any unvested Units will be canceled and forfeited as of the date of Grantee's termination of employment. In other words, the Grantee must be employed by the Company on the relevant Vesting Date to receive any payment with respect to the Units that are scheduled to vest on such Vesting Date.

4.2 Change in Control Prior to End of Performance Measurement Period. If a Change in Control occurs prior to the end of the Performance Measurement Period, the number of Total Earned Units shall be the number of Units the Grantee would have earned pursuant to Section 2.1 and Section 2.4 based on the Company's progress toward the attainment of the Performance Goals as of the date of the closing of the transaction or event that results in the Change in Control. If the Company terminates the Grantee's employment without Cause (including, if applicable, a termination for Good Reason as defined in the Grantee's Employment Agreement or similar document) in connection with or following such Change in Control, the number of Total Earned Units that will vest will be determined by multiplying the number of Total Earned Units (determined in accordance with the preceding sentence) by a fraction, the numerator of which is the number of days the Grantee was employed during the Performance

Measurement Period, and the denominator of which is the total number of days in the Performance Measurement Period. The Vesting Date for any Units that vest pursuant to this Section 4.2 shall be the date of the Grantee's termination of employment.

4.3 <u>Change in Control On or After End of Performance Measurement Period</u>. If a Change in Control occurs on the date of or after the end of the Performance Measurement Period, the number of Total Earned Units shall continue to be the number of Total Earned Units described in Section 3. If the Company terminates the Grantee's employment without Cause (including, if applicable, a termination for Good Reason as defined in the Grantee's Employment Agreement or similar document) in connection with or following such Change in Control but prior to the Vesting Dates described in Section 3, any then unvested Total Earned Units shall become immediately vested. The Vesting Date for any Units that vest pursuant to this Section 4.3 shall be the date of the Grantee's termination of employment.

EXAMPLE OF THE EARNING AND VESTING OF UNITS IN CONNECTION WITH CHANGE IN CONTROL *(for illustrative purposes only)*: Assume you are granted 1,000 Units.

- If (i) a Change in Control occurs on September 30, 2018 and (ii) the Company's progress toward the attainment of the Performance Goals as of such date (including the Company's progress toward the attainment of the Performance Multipliers as of such date) is 150%, the Total Earned Units described in Section 4.2 will be 1,500. If you are terminated without Cause (or terminate for Good Reason) on September 30, 2018, 750 Units will vest as of the date of your termination of employment, and the remaining 750 Units will not vest. If, however, your termination without Cause (or termination for Good Reason) occurs on or after the last day of Q2 of fiscal year 2019, 1,500 Units will vest as of the date of your termination of employment.
- If (i) a Change in Control occurs after the last day of Q2 of fiscal year 2019 and (ii) the Company's attainment of the Performance Goals for the Performance Measurement Period (including the Company's progress toward the attainment of the Performance Multipliers for the Performance Measurement Period) was 150%, the Total Earned Units described in Section 4.3 will be 1,500. If you are terminated without Cause (or terminate for Good Reason) in connection with or following such Change in Control but prior to Vesting Dates described in Section 3, all 1,500 Units (to the extent unvested) will vest as of the date of your termination of employment.

5. <u>Time and Form of Payment</u>. Subject to the provisions of this Grant Agreement and the Plan, as Units vest on the Vesting Dates set forth in Section 3, Section 4.2 or Section 4.3, as the case may be, the Company will deliver to the Grantee the same number of whole shares of Stock, rounded up or down. Subject to Section 21, the Company shall deliver the vested shares (if any) within 15 days of the applicable Vesting Date.

6. <u>Nontransferability</u>. The Units granted by this Grant Agreement shall not be transferable by the Grantee or any other person claiming through the Grantee, either voluntarily or involuntarily, except by will or the laws of descent and distribution or as otherwise provided under Article 13 of the Plan.

7. Adjustments. In the event of a stock dividend or in the event the Stock shall be changed into or exchanged for a different number or class of shares of stock of the Company or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, there shall be substituted for each such remaining share of Stock then subject to this Grant Agreement the number and class of shares of stock into which each outstanding share of Stock shall be so exchanged, all as set forth in Section 5.3 of the Plan.

8. Delivery of Shares. No shares of Stock shall be delivered under this Grant Agreement until: (i) the Units vest pursuant to Section 3, Section 4.2 or Section 4.3 above, as the case may be; (ii) approval of any governmental authority required in connection with the Grant Agreement, or the issuance of shares thereunder, has been received by the Company; (iii) if required by the Committee, the Grantee has delivered to the Company documentation (in form and content acceptable to the Company in its sole and absolute discretion) to assist the Company in concluding that the issuance to the Grantee of any share of Stock under this Grant Agreement would not violate the Securities Act of 1933, as amended (the "Securities Act"), or any other applicable federal, state or local securities or other laws or regulations; (iv) the Grantee has complied with Section 14 below of this Grant Agreement in order for the proper provision for required tax withholdings to be made; and (v) the Grantee has executed and returned this Grant Agreement to the Company (which, in the case of a Grant Agreement provided to the Grantee in electronic format, requires that the Grantee click the "ACCEPT" button). This Grant Agreement must be executed by Grantee no later than the earlier of: (i) ten (10) months from the Grant Date (through and including the normal close of business of the Company for its headquarters location in Phoenix, Arizona on January 4, 2019); or (ii) the date preceding the first Vesting Date described in Section 3 of this Grant Agreement.

9. Securities Act. The Company shall not be required to deliver any shares of Stock pursuant to the vesting of Units if, in the opinion of counsel for the Company, such issuance would violate the Securities Act or any other applicable federal, state or local securities laws or regulations.

10. Voting and Other Stockholder Related Rights. The Grantee will have no voting rights or any other rights as a stockholder of the Company (e.g., no rights to cash dividends) with respect to unvested Units until the Units become vested and the Company issues shares of Stock to the Grantee.

11. Delivery of Documents and Notices. Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Grant Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Grantee by the Company or an Affiliate, or upon deposit in the U.S. Post Office or foreign postal service, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the current address on file with the Company or at such other address as such party may designate in writing from time-to-time to the other party.

11.1 Description of Electronic Delivery. The Plan documents – which may include but do not necessarily include the Plan, a grant notice, this Grant Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders – may be delivered to the Grantee electronically. In addition, the Grantee may deliver electronically any grant notice and this Grant Agreement to the Company or to such third party involved in administering the Plan as the Company may designate from time-to-time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

11.2 Consent to Electronic Delivery. The Grantee acknowledges that Grantee has read Section 11.1 and consents to the electronic delivery of the Plan documents and any grant notice. The Grantee acknowledges that Grantee may receive from the Company a paper copy of any documents delivered electronically at no cost by contacting the Company by telephone or in writing.

12. Administration. This Grant Agreement is subject to the terms and conditions of the Plan and the Plan shall in all respects be administered by the Committee in accordance with the terms and provisions of the Plan. The Committee shall have the sole and complete discretion with respect to all matters reserved to it by the Plan and decisions of the majority of the Committee with respect to the Plan and this Grant Agreement shall be final and binding upon the Grantee and the Company. In the event of any conflict between the terms and conditions of this Grant Agreement and the Plan, the provisions of the Plan shall control.

13. Continuation of Employment. This Grant Agreement shall not be construed to confer upon the Grantee any right to continue employment with the Company and shall not limit the right of the Company, in its sole and absolute discretion, to terminate Grantee's employment at any time.

14. Responsibility for Taxes and Withholdings. The Grantee acknowledges that, regardless of any action the Company or the Grantee's actual employer ("Employer") takes with respect to any or all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Grantee's participation in the Plan and legally applicable to the Grantee ("Tax-Related Items"), the ultimate liability for all Tax-Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Grantee further acknowledges that the Company and/or the Employer: (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Units, including the grant of the Units, the vesting of Units, the conversion of the Units into shares or the receipt of an equivalent cash payment, the subsequent sale of any shares acquired at vesting and the receipt of any dividends and/or dividend equivalents; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Units to reduce or eliminate the Grantee's liability for Tax-Related Items or achieve any particular tax result. Further, if the Grantee has become subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, the Grantee shall pay, or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, pursuant to Article 17 of the Plan, if permissible under local law and subject to any restrictions provided by the Committee prior to the vesting of the shares, the Grantee authorizes the Company or the Employer, or their respective agents, to withhold all applicable Tax-Related Items in shares of Stock to be issued upon vesting/settlement of the Units. Alternatively, or in addition, subject to any restrictions provided by the Committee prior to the vesting of the shares, the Grantee authorizes the Company and/or the Employer, or their respective agents, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (i) withholding from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer; (ii) withholding from proceeds of the sale of shares of Stock acquired upon vesting/settlement of the Units either through a voluntary sale or through a mandatory sale arranged by the Company (on the Grantee's behalf pursuant to this authorization); (iii) personal check or other cash equivalent acceptable to the Company; or (iv) any other means as determined appropriate by the Company or the Committee.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or such greater amounts not to exceed the maximum statutory rate necessary, in the applicable jurisdiction, to satisfy federal, state, and local withholding tax requirements (but only if withholding at a rate greater than the minimum statutory rate will not result in adverse financial accounting consequences). In the event that the Company withholds an amount for Tax-Related Items that exceeds the maximum withholding amount under applicable law, the Grantee shall receive a refund of such over-withheld amount in cash and shall have no entitlement to an equivalent amount in Stock. If the obligation for Tax-Related Items is satisfied by withholding a number of shares of Stock as described herein, for tax purposes, the Grantee shall be deemed to have been issued the full number of shares of Stock subject to the Award, notwithstanding that a number of the shares of Stock are held back solely for the purpose of paying the Tax-Related Items due as a result of the Grantee's participation in the Plan.

Finally, the Grantee shall pay to the Company or to the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of the Grantee's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver shares or the proceeds of the sale of shares of Stock if the Grantee fails to comply with his or her obligation in connection with the Tax-Related Items.

15. **Amendments**. Unless otherwise provided in the Plan or this Grant Agreement, this Grant Agreement may be amended only by a written agreement executed by the Company and the Grantee.

16. **Integrated Agreement**. Any grant notice, this Grant Agreement and the Plan shall constitute the entire understanding and agreement of the Grantee and the Company with

respect to the subject matter contained herein or therein and supersedes any prior agreements, understandings, restrictions, representations or warranties between the Grantee and the Company with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of any grant notice and this Grant Agreement shall survive any settlement of the Award and shall remain in full force and effect.

17. Severability. If one or more of the provisions of this Grant Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Grant Agreement to be construed so as to foster the intent of this Grant Agreement and the Plan.

18. Counterparts. Any grant notice and this Grant Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

19. Governing Law and Venue. This Grant Agreement shall be interpreted and administered under the laws of the State of Delaware. For purposes of litigating any dispute that arises under this grant or this Award, the parties hereby submit to and consent to the jurisdiction of the State of Arizona, agree that such litigation shall be conducted in the courts of Maricopa County, Arizona, or the federal courts for the United States for the District of Arizona, where this grant is made and/or to be performed.

20. Other. The Grantee represents that the Grantee has read and is familiar with the provisions of the Plan and this Grant Agreement, and hereby accepts the Award subject to all of their terms and conditions.

21. Section 409A Compliance. Section 409A of the Code imposes an additional 20% tax, plus interest, on payments from "non-qualified deferred compensation plans." Certain payments under this Grant Agreement could be considered to be payments under a "non-qualified deferred compensation plan." The additional 20% tax and interest do not apply if the payment qualifies for an exception to the requirements of Section 409A or complies with the requirements of Section 409A. The Company believes, but does not and cannot warrant or guaranty, that the payments due pursuant to this Grant Agreement qualify for the short-term deferral exception to Section 409A of the Code as set forth in Treasury Regulation Section 1.409A-1(b)(4). Notwithstanding anything to the contrary in this Grant Agreement, if the Company determines that neither the short-term deferral exception nor any other exception to Section 409A applies to the payments due pursuant to this Grant Agreement, to the extent any payments are due on the Grantee's termination of employment, the term "termination of employment" shall mean "separation from service" as defined in Treasury Regulation Section 1.409A-1(h). In addition, if Grantee is a "specified employee" (as defined in Treasury Regulation Section 1.409A-1(i)) and any payments due pursuant to this Grant Agreement are payable on the Grantee's "separation from service," then such payments shall be paid on the first business day following the expiration of the six month period following the Grantee's "separation from service." This Grant Agreement shall be operated in compliance with Section 409A

or an exception thereto and each provision of this Grant Agreement shall be interpreted, to the extent possible, to comply with Section 409A or to qualify for an applicable exception. The Grantee remains solely responsible for any adverse tax consequences imposed upon the Grantee by Section 409A.

22. **Confidentiality**. The Grantee acknowledges and agrees that the terms of this Grant Agreement are considered proprietary information of the Company. The Grantee hereby agrees that Grantee shall maintain the confidentiality of these matters to the fullest extent permitted by law and shall not disclose them to any third party. If the Grantee violates this confidentiality provision, without waiving any other remedy available, the Company may revoke this Award without further obligation or liability, and the Grantee may be subject to disciplinary action, up to and including the Company's termination of the Grantee's employment for Cause. This Grant Agreement does not limit the Grantee's ability to communicate with any government agencies regarding matters within their jurisdiction or otherwise participate in any investigation or proceeding that may be conducted by any government agency, including providing documents or other information, without notice, to the government agencies. Nothing in this Grant Agreement shall prevent the Grantee from disclosing confidential information or trade secrets that: (i) is made: (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In the event that the Grantee files a lawsuit alleging retaliation by the Company for reporting a suspected violation of law, the Grantee may disclose confidential information or trade secrets related to the suspected violation of law or alleged retaliation to the Grantee's attorney and use the confidential information or trade secrets in the court proceeding if the Grantee or the Grantee's attorney: (i) files any document containing confidential information or trade secrets under seal; and (ii) does not disclose the confidential information or trade secrets, except pursuant to court order. The Company provides this notice in compliance with, among others, the Defend Trade Secrets Act of 2016.

23. **Appendix**. Notwithstanding any provisions in this Grant Agreement, the grant of the Units shall be subject to any special terms and conditions set forth in any appendix (or any appendices) to this Grant Agreement for the Grantee's country (the "Appendix"). Moreover, if the Grantee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to the Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Grant Agreement.

24. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on the Grantee's participation in the Plan, on the Units and on any shares of Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Further, the Award and profits under this Grant Agreement are subject to the Company's compensation recovery policy or policies (and related Company practices) as such may be in effect from time-to-time, whether or not such policies were adopted in response to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended,

and similar or related laws, rules and regulations. In addition to the Company's compensation recovery policy or policies, and notwithstanding anything in the Plan or any Employment Agreement to the contrary, the Company may require the Grantee to forfeit all or a portion of any unvested Units and any shares of Stock delivered pursuant to this Grant Agreement if: (i) the Grantee's employment is terminated for Cause; or (ii) the Committee, in its sole and absolute discretion, determines that the Grantee engaged in serious misconduct that results or might reasonably be expected to result in financial or reputational harm to the Company. Grantee agrees to fully cooperate with the Company in assuring compliance with the provisions of this Section 24 and such compensation recovery policies and the provisions of applicable law, including, but not limited to, promptly returning any compensation subject to recovery by the Company pursuant to the provisions of this Section 24, such policies and applicable law.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Grant Agreement to be signed by its duly authorized representative and the Grantee has signed this Grant Agreement as of the date first written above.

ON SEMICONDUCTOR CORPORATION

By: ______________________________
Tobin Cookman
Senior Vice President, Human Resources
Assistant Compliance and Ethics Officer

GRANTEE

By: ______________________________
Name: ______________________________
Title: ______________________________

Exhibit 10.2

ON SEMICONDUCTOR CORPORATION
AMENDED AND RESTATED STOCK INCENTIVE PLAN
RESTRICTED STOCK UNITS AWARD AGREEMENT

ON Semiconductor Corporation, a Delaware Corporation, ("Company") hereby grants to (“Grantee”), a Participant in the ON Semiconductor Corporation Amended and Restated Stock Incentive Plan, as amended from time-to-time ("Plan"), a Restricted Stock Units Award ("Award") for Units ("Units") representing shares of the common stock of the Company ("Stock"). This agreement to grant Stock Units ("Grant Agreement") is made effective as of the **5th day of March, 2018** ("Grant Date").

RECITALS

A. The Board of Directors of the Company ("Board") has adopted the Plan as an incentive to retain employees, officers, and non-employee Directors of, and Consultants to, the Company and to enhance the ability of the Company to attract, retain and motivate individuals upon whose judgment, interest and special effort the successful conduct of the Company's operation is largely dependent.

B. Under the Plan, the Board has delegated its authority to administer the Plan to the Compensation Committee of the Board ("Committee").

C. The Committee has approved the granting of Units to the Grantee pursuant to the Plan to provide an incentive to the Grantee to focus on the long-term growth of the Company.

D. To the extent not specifically defined herein or in the Grantee's employment agreement or comparable agreement, as amended from time to time ("Employment Agreement"), all capitalized terms used in this Grant Agreement shall have the meaning set forth in the Plan unless a contrary meaning is set forth in the Employment Agreement.

In consideration of the mutual covenants and conditions hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Grantee agree as follows:

1. **<u>Grant of Units</u>.** The Company hereby grants to the Grantee a Restricted Stock Units Award for Units, representing the right to receive the same number of shares of the Company's Stock, subject to the terms and conditions in this Grant Agreement. This Award is granted pursuant to the Plan and its terms are incorporated by reference.

2. **<u>Vesting of Units</u>.** The Units will vest in accordance with the schedule below, subject to paragraph 3 hereof and the Plan:

2.1 Units will vest on March 5, 2019;

2.2 An additional Units will vest on March 5, 2020; and

2.3 The final Units will vest on March 5, 2021.

3. Termination of Employment or Services.

3.1 General. Subject to the provisions of paragraph 3.2 below, if the Grantee terminates employment with the Company for any reason (including upon a termination for Cause), or otherwise ceases to perform services for the Company, any Units that are not vested under the schedule in paragraph 2 above will be canceled and forfeited as of the date of termination of employment or service.

3.2 Change in Control. In the event the Company terminates the Grantee's employment without Cause (including a deemed termination for Good Reason, if applicable for this Grantee, as defined in Grantee's employment agreement or similar document) within two (2) years following a Change in Control, then the unvested portion of the Units shall become immediately vested. The vesting date for any Units that vest pursuant to this provision shall be the date of the Grantee's termination of employment pursuant to this provision.

4. Time and Form of Payment. Subject to the provisions of this Grant Agreement and the Plan, as the number of Units vest under paragraph 2 or under paragraph 3 above, as the case may be, the Company will deliver to the Grantee the same number of whole shares of Stock, rounded up or down. Notwithstanding the preceding, the Company must deliver the shares within 15 days of the applicable vesting date.

5. Nontransferability. The Units granted by this Grant Agreement shall not be transferable by the Grantee or any other person claiming through the Grantee, either voluntarily or involuntarily, except by will or the laws of descent and distribution or as otherwise provided under Article 13 of the Plan.

6. Adjustments. In the event of a stock dividend or in the event the Stock shall be changed into or exchanged for a different number or class of shares of stock of the Company or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, there shall be substituted for each such remaining share of Stock then subject to this Grant Agreement the number and class of shares of stock into which each outstanding share of Stock shall be so exchanged, all as set forth in Section 5.3 of the Plan.

7. Delivery of Shares. No shares of Stock shall be delivered under this Grant Agreement until (i) the Units vest in accordance with the schedule set forth in paragraph 2 above or pursuant to paragraph 3 above, as the case may be; (ii) approval of any governmental authority required in connection with the Grant Agreement, or the issuance of shares thereunder, has been received by the Company; (iii) if required by the Committee, the Grantee has delivered to the Company documentation (in form and content acceptable to the Company in its sole and absolute discretion) to assist the Company in concluding that the issuance to the Grantee of any share of Stock under this Grant Agreement would not violate the Securities Act of 1933, as amended (the "Securities Act"), or any other applicable federal, state or local securities or other laws or regulations; (iv) the Grantee has complied with paragraph 13 below of this Grant Agreement in order for the proper provision for required tax withholdings to be made; and (v) the Grantee

has executed and returned this Grant Agreement to the Company (which, in the case of a Grant Agreement provided to the Grantee in electronic format, requires that the Grantee click the "ACCEPT" button). This Grant Agreement must be executed no later than the date eleven (11) months from the Grant Date, which is through and including the normal close of business of the Company for its headquarters location in Phoenix, Arizona on **February 5, 2019**.

8. Securities Act. The Company shall not be required to deliver any shares of Stock pursuant to the vesting of Units if, in the opinion of counsel for the Company, such issuance would violate the Securities Act or any other applicable federal, state or local securities laws or regulations.

9. Voting and Other Stockholder Related Rights. The Grantee will have no voting rights or any other rights as a stockholder of the Company (e.g., no rights to cash dividends) with respect to nonvested Units until the Units become vested and the Company issues shares of Stock to the Grantee.

10. Delivery of Documents and Notices. Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Grant Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Grantee by the Company or an Affiliate, or upon deposit in the U.S. Post Office or foreign postal service, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the current address on file with the Company or at such other address as such party may designate in writing from time-to-time to the other party.

10.1 Description of Electronic Delivery. The Plan documents – which may include but do not necessarily include the Plan, a grant notice, this Grant Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders – may be delivered to the Grantee electronically. In addition, the Grantee may deliver electronically any grant notice and this Grant Agreement to the Company or to such third party involved in administering the Plan as the Company may designate from time-to-time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

10.2 Consent to Electronic Delivery. The Grantee acknowledges that the Grantee has read paragraph 10.1 above of this Grant Agreement and consents to the electronic delivery of the Plan documents and any grant notice, as described in paragraph 10.1. The Grantee acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Grantee by contacting the Company by telephone or in writing.

11. Administration. This Grant Agreement shall at all times be subject to the terms and conditions of the Plan and the Plan shall in all respects be administered by the Committee in accordance with the terms of and as provided in the Plan. The Committee shall have the sole and complete discretion with respect to all matters reserved to it by the Plan and decisions of the

majority of the Committee with respect thereto and to this Grant Agreement shall be final and binding upon the Grantee and the Company. In the event of any conflict between the terms and conditions of this Grant Agreement and the Plan, the provisions of the Plan shall control.

12. Continuation of Employment or Services. This Grant Agreement shall not be construed to confer upon the Grantee any right to continue employment with, or to provide services to, the Company and shall not limit the right of the Company, in its sole and absolute discretion, to terminate the employment or services of the Grantee at any time.

13. Responsibility for Taxes and Withholdings. The Grantee acknowledges that, regardless of any action the Company or the Grantee’s actual employer (“Employer”) takes with respect to any or all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Grantee’s participation in the Plan and legally applicable to the Grantee (“Tax-Related Items”), the ultimate liability for all Tax-Related Items is and remains the Grantee’s responsibility and may exceed the amount actually withheld by the Company or the Employer. The Grantee further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Units, including the grant of the Units, the vesting of Units, the conversion of the Units into shares or the receipt of an equivalent cash payment, the subsequent sale of any shares acquired at vesting and the receipt of any dividends and/or dividend equivalents; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Units to reduce or eliminate the Grantee’s liability for Tax-Related Items or achieve any particular tax result. Further, if the Grantee has become subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, the Grantee shall pay, or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, pursuant to Article 17 of the Plan, if permissible under local law and subject to any restrictions provided by the Committee prior to the vesting of the shares, the Grantee authorizes the Company or the Employer, or their respective agents, to withhold all applicable Tax-Related Items in shares of Stock to be issued upon vesting/settlement of the Units. Alternatively, or in addition, subject to any restrictions provided by the Committee prior to the vesting of the shares, the Grantee authorizes the Company and/or the Employer, or their respective agents, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (i) withholding from the Grantee’s wages or other cash compensation paid to the Grantee by the Company and/or the Employer; (ii) withholding from proceeds of the sale of shares of Stock acquired upon vesting/settlement of the Units either through a voluntary sale or through a mandatory sale arranged by the Company (on the Grantee’s behalf pursuant to this authorization); or (iii) personal check or other cash equivalent acceptable to the Company.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or such greater amounts not to exceed the maximum statutory rate necessary, in the applicable jurisdiction, to satisfy federal, state, and local withholding tax requirements (but only if withholding at a rate greater than the minimum statutory rate will not result in adverse financial accounting

consequences). In the event that the Company withholds an amount for Tax-Related Items that exceeds the maximum withholding amount under applicable law, the Grantee shall receive a refund of such over-withheld amount in cash and shall have no entitlement to an equivalent amount in Stock. If the obligation for Tax-Related Items is satisfied by withholding a number of shares of Stock as described herein, for tax purposes, the Grantee shall be deemed to have been issued the full number of shares of Stock subject to the Award, notwithstanding that a number of the shares of Stock are held back solely for the purpose of paying the Tax-Related Items due as a result of the Grantee's participation in the Plan.

Finally, the Grantee shall pay to the Company or to the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of the Grantee's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver shares or the proceeds of the sale of shares of Stock if the Grantee fails to comply with his or her obligation in connection with the Tax-Related Items.

14. Amendments. Unless otherwise provided in the Plan or this Grant Agreement, this Grant Agreement may be amended only by a written agreement executed by the Company and the Grantee.

15. Integrated Agreement. Any grant notice, this Grant Agreement and the Plan shall constitute the entire understanding and agreement of the Grantee and the Company with respect to the subject matter contained herein or therein and supersedes any prior agreements, understandings, restrictions, representations, or warranties between the Grantee and the Company with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of any grant notice and this Grant Agreement shall survive any settlement of the Award and shall remain in full force and effect.

16. Severability. If one or more of the provisions of this Grant Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Grant Agreement to be construed so as to foster the intent of this Grant Agreement and the Plan.

17. Counterparts. Any grant notice and this Grant Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

18. Governing Law and Venue. This Grant Agreement shall be interpreted and administered under the laws of the State of Delaware.

For purposes of litigating any dispute that arises under this grant or this Grant Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Arizona, agree that such litigation shall be conducted in the courts of Maricopa County, Arizona, or the federal courts for the United States for the District of Arizona, where this grant is made and/or to be performed.

19. **<u>Other</u>.** The Grantee represents that the Grantee has read and is familiar with the provisions of the Plan and this Grant Agreement, and hereby accepts the Award subject to all of their terms and conditions.

20. **<u>Section 409A Compliance</u>.** Section 409A of the Code imposes an additional 20% tax, plus interest, on payments from "non-qualified deferred compensation plans." Certain payments under this Grant Agreement could be considered to be payments under a "non-qualified deferred compensation plan." The additional 20% tax and interest do not apply if the payment qualifies for an exception to the requirements of Section 409A or complies with the requirements of Section 409A. The Company believes, but does not and cannot warrant or guaranty, that the payments due pursuant to this Grant Agreement qualify for the short-term deferral exception to Section 409A as set forth in Treasury Regulation Section 1.409A-1(b)(4). Notwithstanding anything to the contrary in this Grant Agreement, if the Company determines that neither the short-term deferral exception nor any other exception to Section 409A applies to the payments due pursuant to this Grant Agreement, to the extent any payments are due on the Grantee's termination of employment, the term "termination of employment" shall mean "separation from service" as defined in Treasury Regulation Section 1.409A-1(h). In addition, if Grantee is a "specified employee" (as defined in Treasury Regulation Section 1.409A-1(i)) and any payments due pursuant to this Grant Agreement are payable on the Grantee's "separation from service," then such payments shall be paid on the first business day following the expiration of the six month period following the Grantee's "separation from service." This Grant Agreement shall be operated in compliance with Section 409A or an exception thereto and each provision of this Grant Agreement shall be interpreted, to the extent possible, to comply with Section 409A or to qualify for an applicable exception. The Grantee remains solely responsible for any adverse tax consequences imposed upon the Grantee by Section 409A.

21. **<u>Confidentiality</u>.** The Grantee acknowledges and agrees that the terms of this Grant Agreement are considered proprietary information of the Company. The Grantee hereby agrees that Grantee shall maintain the confidentiality of these matters to the fullest extent permitted by law and shall not disclose them to any third party. If the Grantee violates this confidentiality provision, without waiving any other remedy available, the Company may revoke this Award without further obligation or liability, and the Grantee may be subject to disciplinary action, up to and including the Company's termination of the Grantee's employment for Cause. This Grant Agreement does not limit the Grantee's ability to communicate with any government agencies regarding matters within their jurisdiction or otherwise participate in any investigation or proceeding that may be conducted by any government agency, including providing documents or other information, without notice, to the government agencies. Nothing in this Grant Agreement shall prevent the Grantee from disclosing confidential information or trade secrets that: (i) is made: (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In the event that the Grantee files a lawsuit alleging retaliation by the Company for reporting a suspected violation of law, the Grantee may disclose confidential information or trade secrets related to the suspected violation of law or alleged retaliation to the

Grantee's attorney and use the confidential information or trade secrets in the court proceeding if the Grantee or the Grantee's attorney: (i) files any document containing confidential information or trade secrets under seal; and (ii) does not disclose the confidential information or trade secrets, except pursuant to court order. The Company provides this notice in compliance with, among others, the Defend Trade Secrets Act of 2016.

22. Appendix. Notwithstanding any provisions in this Grant Agreement, the grant of the Units shall be subject to any special terms and conditions set forth in any appendix (or any appendices) to this Grant Agreement for the Grantee's country (the "Appendix"). Moreover, if the Grantee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to the Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Grant Agreement.

23. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Grantee's participation in the Plan, on the Units and on any shares of Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Further, the Award and profits under this Grant Agreement are subject to the Company's compensation recovery policy or policies (and related Company practices) as such may be in effect from time-to-time, whether or not such policies were adopted in response to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended, and similar or related laws, rules and regulations. In addition to the Company's compensation recovery policy or policies, and notwithstanding anything in the Plan or any Employment Agreement to the contrary, the Company may require the Grantee to forfeit all or a portion of any unvested Units and any shares of Stock delivered pursuant to this Grant Agreement if: (i) the Grantee's employment is terminated for Cause; or (ii) the Committee, in its sole and absolute discretion, determines that the Grantee engaged in serious misconduct that results or might reasonably be expected to result in financial or reputational harm to the Company. Grantee agrees to fully cooperate with the Company in assuring compliance with the provisions of this Section 23 and such compensation recovery policies and the provisions of applicable law, including, but not limited to, promptly returning any compensation subject to recovery by the Company pursuant to the provisions of this Section 23, such policies and applicable law.

IN WITNESS WHEREOF, the Company has caused this Grant Agreement to be signed by its duly authorized representative and the Grantee has signed this Grant Agreement as of the date first written above.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

ON SEMICONDUCTOR CORPORATION

By: ______________________________

Tobin Cookman
Senior Vice President, Human Resources
Assistant Compliance and Ethics Officer

GRANTEE

By: ______________________________
Name: ______________________________
Title: ______________________________

Exhibit 31.1

CERTIFICATIONS

I, Keith D. Jackson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ON Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2018

/s/ KEITH D. JACKSON

Keith D. Jackson
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Bernard Gutmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ON Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2018

/s/ BERNARD GUTMANN
Bernard Gutmann
Chief Financial Officer

Exhibit 32

Certification

**Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

For purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of ON Semiconductor Corporation, a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 30, 2018

/s/ KEITH D. JACKSON
Keith D. Jackson
President and Chief Executive Officer

Dated: April 30, 2018

/s/ BERNARD GUTMANN
Bernard Gutmann
Executive Vice President,
Chief Financial Officer and Treasurer