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 June 30, 2017

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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting 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 ☐

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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 August 2, 2017:

Title of Each Class	Number of Shares
Common Stock, par value $0.01 per share	421,563,932

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
FORM 10-Q

TABLE OF CONTENTS

(See the glossary of selected terms immediately following this table of contents for definitions of certain abbreviated terms)

Table of Contents

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
FORM 10-Q

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
2.625% Notes, Series B	2.625% Convertible Senior Subordinated Notes due 2026, Series B
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
CMOS	Complementary Metal Oxide Semiconductor
DSP	Digital signal processing
ESPP	ON Semiconductor Corporation 2000 Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
Freescale	Freescale Semiconductor, Inc.
IC	Integrated circuit
IoT	Internet-of-Things
IP	Intellectual property
IPM	Integrated power module
IPRD	In-Process Research and Development
LED	Light-emitting diode
LIBO Rate	London Interbank Offered Rate
LSI	Large scale integration
Motorola	Motorola Inc.
OEM	Original equipment manufacturers
SCI LLC	Semiconductor Components Industries, LLC, a wholly-owned subsidiary of ON Semiconductor Corporation
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SMBC	Sumitomo Mitsui Banking Corporation
TMOS	T-metal Oxide Semiconductor
Truesense	Truesense Imaging, Inc.
WSTS	World Semiconductor Trade Statistics

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

Table of Contents

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)

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 871.6	$ 1,028.1
Receivables, net	696.4	629.8
Inventories	1,002.0	1,030.2
Other current assets	194.3	181.0
Total current assets	2,764.3	2,869.1
Property, plant and equipment, net	2,215.0	2,159.1
Goodwill	924.7	924.7
Intangible assets, net	708.6	762.1
Deferred tax assets	148.4	138.9
Other assets	73.3	70.5
Total assets	$ 6,834.3	$ 6,924.4
Liabilities, Non-Controlling Interest and Stockholders' Equity		
Accounts payable	$ 546.3	$ 434.0
Accrued expenses	548.7	405.0
Deferred income on sales to distributors	—	109.8
Current portion of long-term debt	268.2	553.8
Total current liabilities	1,363.2	1,502.6
Long-term debt	2,872.3	3,068.5
Deferred tax liabilities	271.3	288.9
Other long-term liabilities	208.2	186.5
Total liabilities	4,715.0	5,046.5
Commitments and contingencies (Note 10)		
2.625% Notes, Series B -Redeemable conversion feature	—	32.9
ON Semiconductor Corporation stockholders' equity:		
Common stock ($0.01 par value, 1,250,000,000 and 750,000,000 shares authorized, 547,421,654 and 542,317,788 issued, 421,525,799 and 418,941,713 outstanding, respectively)	5.5	5.4
Additional paid-in capital	3,538.5	3,473.3
Accumulated other comprehensive loss	(43.8)	(50.2)
Accumulated deficit	(287.1)	(527.3)
Less: Treasury stock, at cost: 125,895,855 and 123,376,075 shares, respectively	(1,116.6)	(1,078.0)
Total ON Semiconductor Corporation stockholders' equity	2,096.5	1,823.2
Non-controlling interest in consolidated subsidiary	22.8	21.8
Total stockholders' equity	2,119.3	1,845.0
Total liabilities and stockholders' equity	$ 6,834.3	$ 6,924.4

See accompanying notes to consolidated financial statements

Table of Contents

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

	Quarter Ended		Six Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Revenues	$1,338.0	$877.8	$2,774.7	$1,695.0
Cost of revenues (exclusive of amortization shown below)	845.9	569.9	1,779.3	1,111.6
Gross profit	492.1	307.9	995.4	583.4
Operating expenses:				
Research and development	145.5	103.0	285.5	201.0
Selling and marketing	79.5	52.7	157.0	101.9
General and administrative	76.6	46.0	145.0	90.5
Amortization of acquisition-related intangible assets	28.6	23.5	57.7	47.2
Restructuring, asset impairments and other, net	5.9	5.2	6.4	6.9
Intangible asset impairment	1.8	2.2	6.2	2.2
Total operating expenses	337.9	232.6	657.8	449.7
Operating income	154.2	75.3	337.6	133.7
Other (expense) income, net:				
Interest expense	(34.7)	(42.1)	(73.1)	(57.7)
Interest income	0.5	2.1	1.1	2.4
Licensing income	23.9	—	23.9	—
Loss on debt refinancing and prepayment	—	—	(26.2)	—
Other	(0.7)	(1.9)	(5.1)	(3.3)
Other expense, net	(11.0)	(41.9)	(79.4)	(58.6)
Income before income taxes	143.2	33.4	258.2	75.1
Income tax provision	(48.8)	(7.6)	(85.1)	(12.9)
Net income	94.4	25.8	173.1	62.2
Less: Net income attributable to non-controlling interest	(0.5)	(0.7)	(1.0)	(1.1)
Net income attributable to ON Semiconductor Corporation	$ 93.9	$ 25.1	$ 172.1	$ 61.1
Comprehensive income, net of tax:				
Net income	$ 94.4	$ 25.8	$ 173.1	$ 62.2
Foreign currency translation adjustments	0.8	1.9	7.1	2.8
Effects of cash flow hedges	(1.5)	—	(0.7)	0.1
Other comprehensive (loss) income, net of tax	(0.7)	1.9	6.4	2.9
Comprehensive income	93.7	27.7	179.5	65.1
Comprehensive income attributable to non-controlling interest	(0.5)	(0.7)	(1.0)	(1.1)
Comprehensive income attributable to ON Semiconductor Corporation	$ 93.2	$ 27.0	$ 178.5	$ 64.0
Net income per common share attributable to ON Semiconductor Corporation:				
Basic	$ 0.22	$ 0.06	$ 0.41	$ 0.15
Diluted	$ 0.22	$ 0.06	$ 0.40	$ 0.15
Weighted-average common shares outstanding:				
Basic	420.8	414.9	420.4	413.7
Diluted	425.9	417.6	426.0	416.5

See accompanying notes to consolidated financial statements

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

	Six Months Ended	
	June 30, 2017	July 1, 2016
Cash flows from operating activities:		
Net income	$ 173.1	$ 62.2
Adjustments to reconcile net income to net cash provided by operating activities and other adjustments:		
Depreciation and amortization	230.8	160.3
Loss on sale or disposal of fixed assets	1.8	0.2
Amortization of debt discount and issuance costs	8.4	4.0
Loss on debt refinancing and prepayment	26.2	—
Payments for term debt modification	(2.4)	—
Write-down of excess inventories	35.6	35.7
Non-cash share-based compensation expense	35.9	27.7
Non-cash interest on convertible notes	13.3	13.0
Non-cash intangible asset impairment charges	6.2	2.2
Change in deferred taxes	57.2	3.2
Other	2.0	(3.4)
Changes in assets and liabilities:		
Receivables	(63.5)	(50.2)
Inventories	(7.1)	(34.7)
Other assets	(41.3)	(10.9)
Accounts payable	35.7	5.2
Accrued expenses	139.8	(4.0)
Deferred income on sales to distributors	(109.8)	6.7
Other long-term liabilities	(0.2)	1.9
Net cash provided by operating activities	541.7	219.1
Cash flows from investing activities:		
Purchases of property, plant and equipment	(121.7)	(124.9)
Proceeds from sales of property, plant and equipment	1.8	0.4
Deposits utilized for purchases of property, plant and equipment	1.1	2.2
Purchase of business, net of cash acquired	(0.8)	—
Cash placed in escrow	—	(67.7)
Purchases of held-to-maturity securities	(1.6)	—
Other	0.3	1.0
Net cash used in investing activities	(120.9)	(189.0)
Cash flows from financing activities:		
Proceeds from issuance of common stock under the employee stock purchase plan	11.3	7.0
Proceeds from exercise of stock options	9.2	2.2
Payments of tax withholding for restricted shares	(13.6)	(8.2)
Repurchase of common stock	(25.0)	—
Proceeds from debt issuance	695.9	9.5
Payments of debt issuance and other financing costs	—	(3.1)
Repayment of long-term debt	(1,191.3)	(64.0)
Purchase of convertible note hedges	(144.7)	—
Proceeds from issuance of warrants	85.2	—
Payment of capital lease obligations	(6.5)	(9.4)
Net cash used in financing activities	(579.5)	(66.0)
Effect of exchange rate changes on cash and cash equivalents	2.2	6.4
Net decrease in cash and cash equivalents	(156.5)	(29.5)
Cash and cash equivalents, beginning of period	1,028.1	617.6
Cash and cash equivalents, end of period	$ 871.6	$588.1

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 second quarter of 2017 ending on June 30, 2017, and each fiscal year ending on December 31. The quarter ended June 30, 2017 and July 1, 2016 each contained 91 days, respectively. The six months ended June 30, 2017 and July 1, 2016 contained 181 and 183 days, respectively. As of June 30, 2017, 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 16: "Segment Information."

The accompanying unaudited financial statements as of and for the quarter and six months ended June 30, 2017 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, 2016 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, 2016 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on February 28, 2017 ("2016 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.

Revenue Recognition Policy

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 manufacturing and design services provided to customers. Revenue is recognized when persuasive evidence of an arrangement exists, title and risk of loss pass to the customer (generally upon shipment), the price is fixed or determinable and collectability is reasonably assured. Revenues are recorded net of provisions for related sales returns and allowances.

Prior to the first quarter of 2017, for products sold to distributors who are entitled to returns and allowances (generally referred to as "ship and credit rights"), the Company recognized the related revenue and cost of revenues when it was informed by the distributor that it had resold the products to the end-user. This was due to the Company's inability to reliably estimate up front the effects of the returns and allowances with these distributors for sales originating through the ON Semiconductor systems and processes. Legacy systems and processes of Fairchild Semiconductor International, Inc. ("Fairchild") enable the Company to estimate up front the effects of returns and allowances provided to these distributors and thereby record the net revenue at the time of sale related to a legacy Fairchild system and process.

When the company adopts ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 (see Note 2: "Recent Accounting Pronouncements"), one of the more significant impacts will be that it will not be permitted to defer revenue until sale by the distributor to the end customer, but rather, will be required to estimate the effects of returns and allowances provided to certain distributors and record revenue at the time of sale to the distributor. In anticipation of the adoption of the new standards, the Company had developed its internal systems, processes and controls for making the required estimates on the sales to these distributors. As a result of these process changes, during the first quarter of 2017, the Company was able to reliably estimate upfront the effects of returns and allowances and record revenue at the time of sales to these distributors. As a result of this change, the Company recognized $155.1 million in revenue during the first quarter of 2017. The impact of this change resulted in an increase of $59.0 million to income before income taxes, or $0.09 per basic and diluted share, for the first quarter of 2017. Additionally, the Company recorded accruals for the estimated returns from the distributors, which decreased revenue by $8.1 million and income before income taxes by $5.3 million.

Although payment terms vary, most distributor agreements require payment within 30 days. Sales returns and allowances are estimated based on historical experience. 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. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. The Company reviews warranty and related claims activities and records provisions, as necessary.

Freight and handling costs are included in cost of revenues and are recognized as period expense when incurred. 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 statement of operations.

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. Significant estimates have been used by management in conjunction with the following: (i) estimates of future payouts for customer incentives and 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 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 and evaluations of uncertain tax positions; and (vii) estimates and assumptions used in connection with business combinations. Actual results could differ from these estimates.

Note 2: Recent Accounting Pronouncements

ASUs Adopted:

ASU No 2017-04 - "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04")

In January 2017, the FASB issued ASU 2017-04, which simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. The amendment is effective for calendar year-end SEC filers in 2020, and early adoption is permitted. The Company early adopted ASU 2017-04 during the first quarter of 2017. The adoption of this standard did not impact the Company's financial statements.

ASU No. 2016-09 - “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”)

In March 2016, the FASB issued ASU 2016-09, which is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. ASU 2016-09, which the Company adopted as of the first quarter of 2017, requires that excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. Excess tax benefits should be recognized regardless of whether the benefit reduces taxes payable in the current period. Previously, the Company followed the guidance that the tax benefit and credit to APIC for a windfall tax benefit should not be recorded until the deduction reduces income taxes payable. The Company has been historically in a net taxable loss. Therefore, the windfall tax benefit has not reduced income taxes payable. The new guidance requires all excess tax benefits that were not previously recognized because the related tax deduction had not reduced current taxes payable to be recorded on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the period in which the new guidance is adopted. The financial statement impact of this change resulted in $68.1 million being recorded as a credit to retained earnings as of January 1, 2017. On a prospective basis, the impact of windfalls and shortfalls will be recorded to income tax expense on a discrete basis.

The Company will continue to classify employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes as a financing activity. The Company will continue to estimate forfeitures as part of share based compensation expense recognition.

ASU No. 2015-11 - “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”)

In July 2015, the FASB issued ASU 2015-11, which requires that an entity should measure in-scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard did not have a material impact on the financial statements.

ASUs Pending Adoption:

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. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2017-09 may have on its consolidated financial statements and has not elected early adoption as of the quarter ended June 30, 2017.

ASU No 2017-08 - “Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities” (“ASU 2017-08”)

In March 2017, the FASB issued ASU 2017-08, which shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendment is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact that the adoption of ASU 2017-08 may have on its consolidated financial statements and has not elected early adoption as of the quarter ended June 30, 2017.

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

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. Early adoption is permitted at the beginning of an annual period (in the first interim period) for which financial statements have not yet been issued. The Company is currently evaluating the impact that the adoption of ASU 2017-07 may have on its consolidated financial statements and has not elected early adoption as of the quarter ended June 30, 2017.

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. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-18 may have on its consolidated financial statements and has not elected early adoption as of the quarter ended June 30, 2017.

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. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-16 may have on its consolidated financial statements and has not elected early adoption as of the quarter ended June 30, 2017.

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. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-15 may have on its consolidated financial statements and has not elected early adoption as of the quarter ended June 30, 2017.

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. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, 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. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-02 may have on its consolidated financial statements and has not elected early adoption as of the quarter ended June 30, 2017.

ASU No. 2016-01 - "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01")

In January 2016, the FASB issued ASU No. 2016-01, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is not permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-01 may have on its consolidated financial statements.

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")

In May 2014, the FASB issued ASU 2014-09, which applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other standards, superseding the existing revenue recognition requirements in ASC Topic 605 "Revenue Recognition." Pursuant to ASU 2014-09, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange, as applied through a multi-step process to achieve that core principle. Subsequently, the FASB approved a deferral included in ASU 2015-14 that permits public entities to apply the amendments in ASU 2014-09 for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein, and that would also permit public entities to elect to adopt the amendments as of the original effective date as applicable to reporting periods beginning after December 15, 2016. The new guidance allows for the amendment to be applied either retrospectively to each prior reporting period presented or retrospectively as a cumulative-effect adjustment as of the date of adoption. In March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, which clarifies identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, which improves certain aspects of ASC Topic 606 "Revenue from Contracts with Customers." In December 2016, the FASB issued ASU 2016-20, which improves certain aspects of ASC Topic 606 "Revenue from Contracts with Customers." The effective date and transition requirements for ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 are the same as the effective date and transition requirements of ASU 2014-09 (collectively, "the standard").

The Company has not early adopted and is still evaluating the impact of the standard primarily as it relates to the timing of revenue recognition from the sale of ASICs and custom products. This includes an evaluation of the terms of customer contracts and arrangements that could potentially change the point in time revenue recognition to over time, which could have a material impact to the financial statements. The Company will adopt the standard on a modified retrospective basis on January 1, 2018. See Note 1: "Background and Basis of Presentation" for the impact of the change in revenue recognition on distributor sales.

Note 3: Acquisitions and Divestitures

2016 Acquisition

Fairchild

On September 19, 2016, the Company acquired 100% of Fairchild pursuant to the Agreement and Plan of Merger (the “Fairchild Agreement”) with each of Fairchild and Falcon Operations Sub, Inc., a Delaware corporation and wholly-owned subsidiary of the Company, whereby Fairchild became a wholly-owned subsidiary of the Company. The purchase price totaled $2,532.2 million in cash and was funded by the Company’s borrowings against the Term Loan “B” Facility and a partial draw of the Revolving Credit Facility, as well as with cash on hand.

Licensing Income

On December 19, 2016, the Company entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with HSET Electronic Tech (Hong Kong) Limited (“HSET”) to sell inventory and license patents related to its Mobile CIS business for $75 million. Pursuant to the Asset Purchase Agreement, the proceeds were scheduled to be received in multiple installments in 2017. The Company and HSET along with Huaian Imaging Device Manufacturer Corporation (“HIDM”) entered into the First Amendment (the “First Amendment”) to the Asset Purchase Agreement on April 7, 2017. Pursuant to the First Amendment, payments for inventory will be received upon shipment of products and payments for other intangible assets, including the licenses, will be received in multiple installments on dates later than those established under the Asset Purchase Agreement. Due to the extension of payment terms under the First Amendment and the fact that the right to use the license by the customer is contingent on the receipt of certain payments, the transaction was not considered a divestiture of a group and has been treated as individual transactions, which are recorded when the associated deliverables are transferred to the buyer. The arrangement included the sale of $22.5 million of inventory which has been recorded as revenue during the six months ended June 30, 2017.

During the quarter ended June 30, 2017, the Company received $22.5 million relating to the second payment under the First Amendment and provided perpetual, non-exclusive licenses to certain technologies to HIDM. This payment, along with withholding taxes borne by the buyer on the Company’s behalf, has been recognized as licensing income in the Consolidated Statements of Operations and Comprehensive Income. The remaining value of the licensed technologies in intangible assets was nominal and has been fully amortized through operating expenses as there are no additional expected future cash flows associated with these technologies.

The remaining payments of $30.0 million are expected to be received during the third quarter of 2017, of which $20.0 million is expected to be immediately recognized as licensing income in the Consolidated Statements of Operations and Comprehensive Income and $10.0 million will be recorded as deferred licensing income until certain production qualification requirements of the technologies are achieved. The $10.0 million is contingent upon and will be recognized as licensing income in the period in which such qualification is achieved. If the required qualification does not occur by June 21, 2018, the $10.0 million is required to be refunded to the buyer. Included in intangible assets, net as of June 30, 2017 is $8.1 million of net book value for these technologies, which is expected to be expensed to operating expenses upon receipt of the remaining $30.0 million of payments as there will be no subsequent future cash flows associated with these technologies.

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

Note 4: Goodwill and Intangible Assets

Goodwill

The following table summarizes goodwill by reportable segment as of June 30, 2017 and December 31, 2016 (in millions):

	Balance as of June 30, 2017			Balance as of December 31, 2016		
	Goodwill	Accumulated Impairment Losses	Carrying Value	Goodwill	Accumulated Impairment Losses	Carrying Value
Reportable Segment:						
Power Solutions Group	$ 438.7	$ (28.6)	$ 410.1	$ 438.7	$ (28.6)	$ 410.1
Analog Solutions Group	836.7	(418.9)	417.8	836.7	(418.9)	417.8
Image Sensor Group	96.8	—	96.8	96.8	—	96.8
	$ 1,372.2	$ (447.5)	$ 924.7	$ 1,372.2	$ (447.5)	$ 924.7

There has been no change in the balance of Goodwill from December 31, 2016 to June 30, 2017.

Goodwill is tested for impairment annually on the first day of the fourth quarter unless a triggering event would require an interim analysis. Management did not identify any triggering events through June 30, 2017 that would require an interim impairment analysis.

Intangible Assets

Intangible assets, net, were as follows as of June 30, 2017 and December 31, 2016 (in millions):

	June 30, 2017			
	Original Cost	Accumulated Amortization	Accumulated Impairment Losses	Carrying Value
Intellectual property	$ 13.9	$ (11.5)	$ (0.4)	$ 2.0
Customer relationships	555.9	(308.4)	(20.1)	227.4
Patents	43.7	(26.1)	(13.7)	3.9
Developed technology	600.7	(236.2)	(2.6)	361.9
Trademarks	17.2	(12.0)	(1.1)	4.1
Backlog	3.3	(3.3)	—	—
Favorable Leases	1.5	(1.1)	—	0.4
IPRD	121.1	—	(12.2)	108.9
Total intangibles	$ 1,357.3	$ (598.6)	$ (50.1)	$ 708.6

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

	December 31, 2016			
	Original Cost	Accumulated Amortization	Accumulated Impairment Losses	Carrying Value
Intellectual property	$ 13.9	$ (11.2)	$ (0.4)	$ 2.3
Customer relationships	549.0	(283.3)	(19.5)	246.2
Patents	43.7	(25.4)	(13.7)	4.6
Developed technology	566.9	(201.6)	(2.6)	362.7
Trademarks	17.2	(11.6)	(1.1)	4.5
Backlog	3.3	(2.4)	—	0.9
Favorable Leases	1.5	(0.4)	—	1.1
IPRD	145.8	—	(6.0)	139.8
Total intangibles	$ 1,341.3	$ (535.9)	$ (43.3)	$ 762.1

During the quarter and six months ended June 30, 2017, the Company completed certain of its IPRD projects, resulting in the reclassification of $17.8 million and $32.9 million from IPRD to developed technology, respectively. During the quarter and six months ended June 30, 2017, the Company abandoned certain of its previously capitalized IPRD projects and recorded impairment charges of $1.8 million and $6.2 million, respectively.

Amortization expense for acquisition-related intangible assets amounted to $28.6 million and $57.7 million for the quarter and six months ended June 30, 2017, respectively, and $23.5 million and $47.2 million for the quarter and six months ended July 1, 2016, respectively. Amortization expense for intangible assets, with the exception of the $108.9 million of IPRD assets that will be amortized once the corresponding projects have been completed, is expected to be as follows for remainder of 2017, each of the next four years, and thereafter (in millions):

Period	Estimated Amortization Expense
Remainder of 2017	$ 57.3
2018	99.8
2019	91.6
2020	75.6
2021	63.9
Thereafter	211.5
Total estimated amortization expense	$ 599.7

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 for the quarter and six months ended June 30, 2017 is as follows (in millions):

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

	Restructuring	Asset Impairments	Other (1)	Total
Quarter ended June 30, 2017				
Post-Fairchild acquisition restructuring costs	$ 3.0	$ —	$ —	$ 3.0
Japan Voluntary Workforce Reduction	1.0	—	—	1.0
Other (1)	—	—	1.9	1.9
Total	$ 4.0	$ —	$ 1.9	$ 5.9

	Restructuring	Asset Impairments	Other (1)	Total
Six months ended June 30, 2017				
Post-Fairchild acquisition restructuring costs	$ 4.6	$ —	$ —	$ 4.6
Manufacturing relocation	(2.1)	—	—	(2.1)
Japan Voluntary Workforce Reduction	1.0			1.0
Other (1)	0.1	—	2.8	2.9
Total	$ 3.6	$ —	$ 2.8	$ 6.4

(1) Includes amounts related to write-down of certain held for sale assets, other restructuring activities and immaterial adjustments which are not considered to be significant.

Changes in accrued restructuring charges from December 31, 2016 to June 30, 2017 are summarized as follows (in millions):

	Balance as of December 31, 2016	Charges	Usage	Balance as of June 30, 2017
Estimated employee separation charges	$ 8.1	$ 3.4	$ (6.7)	$ 4.8
Estimated costs to exit	—	0.2	(0.1)	0.1
Total	$ 8.1	$ 3.6	$ (6.8)	$ 4.9

Activity related to the Company's restructuring programs that were either initiated during 2017 or had not been completed as of June 30, 2017, is as follows:

Post Fairchild Acquisition Restructuring Costs

On September 19, 2016, following the acquisition of Fairchild, the Company approved the implementation of a cost-reduction plan, the first step of which was to eliminate approximately 130 positions from its workforce as a result of redundancies and position eliminations. During the quarters ended December 31, 2016, March 31, 2017 and June 30, 2017, an additional 95, 25 and 31 positions, respectively, were eliminated pursuant to the plan. The expense was $3.0 million and $4.6 million for the quarter and six months ended June 30, 2017, respectively. During the quarter and six months ended June 30, 2017, $1.8 million and $6.4 million was paid for all programs, respectively. Accrued severance for this program was $3.7 million as of June 30, 2017 and is expected to be paid by the third quarter of 2017. The total expense for the program to date is $30.3 million. The Company will continue to evaluate the remaining positions for redundancies and may incur additional charges in the future.

Japan Voluntary Workforce Reduction

During the quarter ended June 30, 2017, the Company announced a voluntary resignation program for the former System Solutions Group. A total of 19 employees had signed employee separation agreements as of June 30, 2017. The related expense for the quarter and six months ended June 30, 2017 was $1.0 million and $1.0 million, respectively. Up to 50 employees may volunteer to resign by the end of the year with an expected expense between $3.0 million and $4.0 million. No employees have exited as of June 30, 2017, but such employees who elect to resign pursuant to the program are expected to exit by the end of the fiscal year.

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

Manufacturing Relocation

During March 2016, the Company announced a plan to relocate certain of its manufacturing operations to another existing location. During the quarter ended March 31, 2017, the Company made the decision to cancel the plans for relocation and announced all workforce would remain intact. As a result, the accrued balance of $2.1 million was released as of March 31, 2017.

Note 6: Balance Sheet Information

Certain amounts included in the Company's balance sheet as of June 30, 2017 and December 31, 2016 consist of the following (in millions):

	June 30, 2017	December 31, 2016
Receivables, net:		
Accounts receivable	$ 699.0	$ 632.0
Less: Allowance for doubtful accounts	(2.6)	(2.2)
	$ 696.4	$ 629.8
Inventories:		
Raw materials	$ 120.8	$ 121.4
Work in process	593.8	606.9
Finished goods	287.4	301.9
	$ 1,002.0	$ 1,030.2
Property, plant and equipment, net:		
Land	$ 148.6	$ 146.3
Buildings	719.3	713.7
Machinery and equipment	3,328.0	3,131.1
Total property, plant and equipment	4,195.9	3,991.1
Less: Accumulated depreciation	(1,980.9)	(1,832.0)
	$ 2,215.0	$ 2,159.1
Accrued expenses:		
Accrued payroll	$ 189.8	$ 155.3
Sales related reserves	224.7	124.8
Income taxes payable	34.2	30.0
Other	100.0	94.9
	$ 548.7	$ 405.0

As described in Note 1: "Background and Basis of Presentation," during the quarter ended March 31, 2017, the Company recognized accruals for returns and allowances at the time of recognizing revenue upon shipment to the distributors, which is included in Sales related reserves within accrued expenses.

Assets classified as held for sale, consisting of properties, machinery and equipment are required to be recorded at the lower of carrying value or fair value less any costs to sell. The carrying value of these assets, as of June 30, 2017 and December 31, 2016, was $23.7 million and $34.1 million, respectively, and is reported as other current assets on the Company's Consolidated Balance Sheet. The Company expects to dispose of the remaining assets within twelve months of original reclassification.

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

Warranty Reserves

Activity related to the Company's warranty reserves for the six months ended June 30, 2017 and July 1, 2016 is as follows (in millions):

	Six Months Ended	
	June 30, 2017	July 1, 2016
Beginning Balance	$ 8.8	$ 5.3
Provision	2.2	1.9
Usage	(3.6)	(1.7)
Ending Balance	$ 7.4	$ 5.5

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 June 30, 2017, the total accrued pension liability for underfunded plans was $108.5 million, of which the current portion of $0.1 million was classified as accrued expenses. As of December 31, 2016, the total accrued pension liability for underfunded plans was $102.1 million, of which the current portion of $0.1 million was classified as accrued expenses.

The components of the Company's net periodic pension expense for the quarters and six months ended June 30, 2017 and July 1, 2016 are as follows (in millions):

	Quarter Ended		Six Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Service cost	$ 2.3	$ 2.3	$ 4.6	$ 4.5
Interest cost	1.1	1.1	2.1	2.2
Expected return on plan assets	(1.3)	(1.0)	(2.6)	(2.0)
Total net periodic pension cost	$ 2.1	$ 2.4	$ 4.1	$ 4.7

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

Note 7: Long-Term Debt

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

	June 30, 2017	December 31, 2016
Revolving Credit Facility due 2021	$ —	$ —
Term Loan "B" Facility due 2023, interest payable monthly at 3.48% and 4.02%, respectively	1,804.5	2,394.0
1.00% Notes due 2020 (1)	690.0	690.0
2.625% Notes, Series B (2)	—	356.4
1.625% Notes due 2023 (3)	575.0	—
Note payable to SMBC due 2016 through 2018, interest payable quarterly at 3.05% and 2.75%, respectively (4)	141.6	160.4
U.S. real estate mortgages payable monthly through 2019 at an average rate of 3.12% and 3.12%, respectively (5)	36.6	38.9
Philippine term loans due 2016 through 2020, interest payable quarterly at 3.51% and 3.20%, respectively (8)	38.2	44.1
Loan with Singapore bank, interest payable weekly at 2.46% and 2.01%, respectively (7) (11)	25.0	25.0
Loan with Hong Kong bank, interest payable weekly at 2.47% and 2.01%, respectively (7) (11)	25.0	25.0
Malaysia revolving line of credit, interest payable quarterly at 2.75% and 2.45%, respectively (8) (11)	25.0	25.0
Vietnam revolving line of credit, interest payable quarterly at an average rate of 2.61% and 2.43%, respectively (8) (11)	25.0	17.0
Loan with Philippine bank due 2016 through 2019, interest payable quarterly at 3.89% and 3.58%, respectively (6)	11.8	14.1
Loan with Japanese bank due 2016 through 2020, interest payable quarterly at 1.1% (8)	3.1	3.4
Canada equipment financing payable monthly through 2017 at 3.81% (6)	—	0.5
Capital lease obligations	6.5	13.0
Gross long-term debt, including current maturities	3,407.3	3,806.8
Less: Debt discount (9)	(204.2)	(111.4)
Less: Debt issuance costs (10)	(62.6)	(73.1)
Net long-term debt, including current maturities	3,140.5	3,622.3
Less: Current maturities	(268.2)	(553.8)
Net long-term debt	2,872.3	3,068.5

(1) Interest is payable on June 1 and December 1 of each year at 1.00% annually.
(2) The 2.625% Notes, Series B were redeemed in full in January 2017. See below under the heading "2.625% Notes, Series B" for additional information.
(3) Interest is payable on April 15 and October 15 of each year, beginning October 15, 2017, at 1.625% annually.
(4) This loan represents SCI LLC's non-collateralized loan with SMBC, which is guaranteed by the Company.
(5) Debt arrangement collateralized by real estate, including certain of the Company's facilities in California, Oregon and Idaho.
(6) Debt collateralized by equipment.
(7) Debt arrangement collateralized by certain accounts receivable.
(8) Non-collateralized debt arrangement.
(9) Debt discount of $71.9 million and $81.5 million for the 1.00% Notes as of June 30, 2017 and December 31, 2016, respectively, $112.0 million and zero for the 1.625% Notes as of June 30, 2017 and December 31, 2016, respectively, and $20.3 million and $29.9 million for the Term Loan "B" Facility as of June 30, 2017 and December 31, 2016, respectively.

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

(10) Debt issuance costs of $10.0 million and $11.3 million for the 1.00% Notes as of June 30, 2017 and December 31, 2016, respectively, $10.7 million and zero for the 1.625% Notes as of June 30, 2017 and December 31, 2016, respectively, and $41.9 million and $61.8 million for the Term Loan "B" Facility as of June 30, 2017 and December 31, 2016, respectively.
(11) The Company has historically renewed these arrangements annually.

Expected maturities relating to the Company's long-term debt (including current maturities) as of June 30, 2017 are as follows (in millions):

Period	Expected Maturities
Remainder of 2017	$ 132.3
2018	148.2
2019	47.6
2020	699.7
2021	—
Thereafter	2,379.5
Total	$ 3,407.3

2.625% Notes, Series B

On November 17, 2016, the Company announced that it would be exercising its option to redeem the entire $356.9 million outstanding principal amount of the 2.625% Notes, Series B on December 20, 2016 pursuant to the terms of the indenture governing the 2.625% Notes, Series B. The holders of the 2.625% Notes, Series B had the right to convert their 2.625% Notes, Series B into shares of common stock of the Company at a conversion rate of 95.2381 shares per $1,000 principal amount until the close of business on December 19, 2016, which was equivalent to an initial conversion price of approximately $10.50 per share of common stock.The Company, at its election, could settle its conversion obligation with respect to the 2.625% Notes, Series B, with shares of common stock, cash or a combination thereof. The Company satisfied its obligation with respect to the 2.625% Notes, Series B tendered for conversion with cash. The final conversion was settled on January 26, 2017, resulting in an aggregate payment of approximately $445.0 million for the redemption and conversion of the 2.625% Notes, Series B. The equity component of the 2.625% Notes, Series B, amounting to $32.9 million, representing the amounts previously recorded to additional paid-in capital, was reclassified to mezzanine equity as of December 31, 2016. There was no loss on extinguishment of debt, and upon settlement, the balance in the mezzanine equity was reduced to zero and the remaining $55.7 million was recorded as a reduction to additional paid-in capital.

1.625% Notes due 2023

On March 31, 2017, the Company completed a private placement of $575.0 million of its 1.625% Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The Company incurred issuance costs of $13.7 million in connection with the issuance of the 1.625% Notes, of which $11.1 million was capitalized as debt issuance costs and is being amortized using the effective interest method and $2.6 million was allocated to the conversion option (as further described below) and was recorded as equity. The 1.625% Notes are governed by an indenture (the "1.625% Indenture") between the Company, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee.

The net proceeds from the offering of the 1.625% Notes were used to repay $562.1 million of borrowings outstanding under the Term Loan "B" Facility. The 1.625% Notes bear interest at the rate of 1.625% per year from the date of issuance, payable semiannually in arrears on April 15 and October 15 of each year, beginning on October 15, 2017. The 1.625% Notes are fully and unconditionally guaranteed, on a joint and several basis, by each of the Company's subsidiaries that is a borrower or guarantor under the Credit Agreement (as defined below).

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

The initial conversion rate of the 1.625% Notes is 48.2567 shares of common stock per $1,000 principal amount of 1.625% Notes (subject to adjustment in certain events), which is equivalent to an initial conversion price of approximately $20.72 per share of common stock. Prior to the close of business on the business day immediately preceding July 15, 2023, the 1.625% Notes will be convertible only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2017 (and only during such calendar quarter), if the last reported sale price of the Company's 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; (2) during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the 1.625% Notes for each trading day of such period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate transactions described in the 1.625% Indenture. On or after July 15, 2023, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders of the 1.625% Notes may convert all or a portion of their 1.625% Notes at any time. Upon conversion of the 1.625% 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. For a discussion of the dilutive effects for earnings per share calculations, see Note 8: "Earnings Per Share and Equity."

The 1.625% Notes will mature on October 15, 2023. If a holder elects to convert its 1.625% Notes in connection with the occurrence of specified fundamental changes that occur prior to July 15, 2023, the holder will be entitled to receive, in addition to cash and/or shares of common stock equal to the conversion rate, an additional number of shares of common stock, as described in the 1.625% Indenture. Notwithstanding these conversion rate adjustments, the 1.625% Notes contain an explicit limit on the number of shares issuable upon conversion.

In connection with the occurrence of specified fundamental changes, holders may require the Company to repurchase for cash all or a portion of their 1.625% Notes at a purchase price equal to 100% of the principal amount of the 1.625% Notes to be repurchased, plus accrued and unpaid interest to, but not including, the fundamental change repurchase date.

The 1.625% Notes, which are the Company's unsecured obligations, rank equally in right of payment to all of the Company's existing and future unsubordinated indebtedness and are senior in right of payment to all of the Company's existing and future subordinated obligations. The 1.625% Notes are effectively subordinated to any of the Company's or its subsidiaries' secured indebtedness to the extent of the value of the assets securing such indebtedness.

In accordance with accounting guidance on embedded conversion features, the Company valued and bifurcated the conversion option associated with the 1.625% Notes from the respective host debt instrument, which is referred to as the debt discount, and initially recorded the conversion option of $115.7 million in stockholders' equity. The resulting debt discount is being amortized to interest expense at an effective interest rate of 5.38% over the contractual terms of the notes. The unamortized debt discount as of June 30, 2017 was $112.0 million.

Included as a reduction of gross long-term debt as of June 30, 2017, were $10.7 million of unamortized debt issuance costs associated with the 1.625% Notes, which are being amortized using the effective interest method.

Concurrently with the offering of the 1.625% Notes, the Company used $59.5 million of borrowings under the Revolving Credit Facility to enter into convertible note hedge and warrant transactions with certain of the initial purchasers of the 1.625% Notes.

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

Pursuant to these transactions, the Company has the option to purchase (subject to adjustment for certain specified transactions) an aggregate of 27.7 million shares of its common stock at a price of $20.72 per share. The total cost of the convertible note hedge transactions was $144.7 million. In addition, the Company sold warrants to certain bank counterparties whereby the holders of the warrants have the option to purchase initially (subject to adjustment for certain specified events) a total of 27.7 million shares of the Company's common stock at a price of $30.70 per share. The Company received $85.2 million in cash proceeds from the sale of these warrants.

Together, the purchase of the convertible note hedges and the sale of the warrants are intended to offset potential dilution from the conversion of the 1.625% Notes. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded in stockholders' equity and are not accounted for as derivatives. The net cost incurred in connection with the convertible note hedge and warrant transactions was recorded as a reduction to additional paid in capital in the consolidated balance sheet. A portion of the shares subject to the conversion of the 1.625% Notes and hedging transactions were reserved from the Company's unallocated shares.

Second Amendment to Credit Agreement

On March 31, 2017, the Company and certain of the Company's subsidiaries, as guarantors (the "Guarantors"), entered into the Second Amendment (the "Second Amendment") to the Credit Agreement, dated as of April 15, 2016, as amended by the First Amendment (the "First Amendment") thereto, dated as of September 30, 2016, with the several lenders party thereto, Deutsche Bank AG New York Branch, as administrative agent (the "Agent"), Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, BMO Capital Markets Corp., HSBC Securities (USA) Inc. and Sumitomo Mitsui Banking Corporation, as joint lead arrangers and joint bookrunners, Barclays Bank PLC, Compass Bank, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Morgan Stanley Senior Funding, Inc., BOKF, NA and KBC Bank N.V., as co-managers, and HSBC Bank USA, N.A. and Sumitomo Mitsui Banking Corporation, as co-documentation agents (as amended by the First Amendment and Second Amendment, the "Credit Agreement").

The Second Amendment provides for, among other things, modifications to the Credit Agreement to allow the 1.625% Notes to rank pari passu with borrowings under the Credit Agreement and to reduce the interest rates payable under the term loan "B" facility (the "Term Loan "B" Facility") and the revolving credit facility (the "Revolving Credit Facility") .

Borrowings under the Credit Agreement may be incurred in U.S. Dollars, Euros, Pounds Sterling, Japanese Yen or any other currency approved by the Agent and the lenders under the Revolving Credit Facility, subject to certain qualifications described in the Credit Agreement. Regardless of currency, all borrowings under the Credit Agreement, may, at the Company's option, be incurred as either eurocurrency loans ("Eurocurrency Loans") or alternate base rate loans ("ABR Loans").

Pursuant to the Credit Agreement, for any interest period ending after the date of the Second Amendment, Eurocurrency Loans will accrue interest at (i) a base rate per annum equal to the Adjusted LIBO Rate (as defined below) plus (ii) an applicable margin equal to (x) 1.75% with respect to borrowings under the Revolving Credit Facility (with step-downs and step-ups as set forth in the Credit Agreement) or (y) 2.25% with respect to borrowings under the Term Loan "B" Facility.

Pursuant to the Credit Agreement, ABR Loans will accrue interest at (i) a base rate per annum equal to the highest of (x) the Federal funds rate plus 0.50%, (y) the prime commercial lending rate announced by Deutsche Bank AG, New York Branch from time to time as its prime lending rate and (z) the Adjusted LIBO Rate for a one month interest period (or if such day is not a business day, the immediately preceding business day) (determined after giving effect to any applicable "floor") plus 1.00%; provided that, the Adjusted LIBO Rate for any day shall be based on the LIBO Rate (as defined below), subject to the interest rate floors set forth in the Credit Agreement, plus (ii) an applicable margin equal to (x) 0.75% with respect to borrowings under the Revolving Credit Facility (with step-downs and step-ups as set forth in the Credit Agreement) or (y) 1.25% with respect to borrowings under the Term Loan "B" Facility.

The obligations under the Credit Agreement are guaranteed by the Guarantors and collateralized by a pledge of substantially all of the assets of the Company and the Guarantors, including a pledge of the equity interests in certain of the Company's domestic and first tier foreign subsidiaries, subject to customary exceptions. The obligations under the Credit Agreement are also collateralized by mortgage on certain real property assets of the Company and its domestic subsidiaries.

The Credit Agreement includes financial maintenance covenants including a maximum consolidated total net leverage ratio and a minimum interest coverage ratio in relation to the Revolving Credit Facility. It also contains other customary affirmative and negative covenants and events of default. The Company was in compliance with its covenants under the Credit Agreement as of June 30, 2017.

Debt prepayment, issuance costs

The Company incurred legal and other fees of $2.4 million related to Second Amendment. The Company performed a debt extinguishment vs. modification analysis on a lender by lender basis upon the execution of the Second Amendment and recorded a debt extinguishment charge of $5.6 million during the quarter ended March 31, 2017, which included a $3.2 million write off of unamortized debt issuance costs and $2.4 million in third party fees.

On March 31, 2017, the Company used the proceeds from the issuance of the 1.625% Notes, amounting to $562.1 million, and cash on hand of $12.9 million to prepay $575.0 million of the outstanding balance of the Term Loan "B" Facility and recorded a loss on debt prepayment amounting to $20.6 million representing the proportionate write-off of unamortized debt issuance costs.

During the quarter ended June 30, 2017, the Company repaid its $120.0 million borrowings under the Revolving Credit Facility.

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		Six Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Net income attributable to ON Semiconductor Corporation	$ 93.9	$ 25.1	$ 172.1	$ 61.1
Basic weighted-average common shares outstanding	420.8	414.9	420.4	413.7
Dilutive effect of share-based awards	5.1	2.7	5.6	2.8
Diluted weighted-average common shares outstanding	425.9	417.6	426.0	416.5
Net income per common share attributable to ON Semiconductor Corporation:				
Basic	$ 0.22	$ 0.06	$ 0.41	$ 0.15
Diluted	$ 0.22	$ 0.06	$ 0.40	$ 0.15

Basic net income per common share attributable to ON Semiconductor Corporation is computed by dividing Net income attributable to ON Semiconductor Corporation by the Basic 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 restricted stock units 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 share-based awards was zero and 1.7 million for the quarters ended June 30, 2017 and July 1, 2016, respectively, and 0.5 million and 3.3 million for the six months ended June 30, 2017 and July 1, 2016, 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. 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 quarter and six months ended July 1, 2016 as the Company focused on building up cash reserves ahead of the Fairchild Transaction. There were also no repurchases of the Company's common stock under this program during the quarter ended June 30, 2017 as the Company focused on building up cash reserves ahead of paying down its long-term debt.

Information relating to the Company's share repurchase program during the quarter and six months ended June 30, 2017 is as follows (in millions, except per share data):

	Quarter Ended June 30, 2017	Six Months Ended June 30, 2017
Number of repurchased shares (1)(2)	—	1.6
Aggregate purchase price	$ —	$ 25.0
Weighted-average purchase price per share (3)	$ —	$ 15.35
Available for future purchases at June 30, 2017	$ 603.2	$ 603.2

(1) None of these shares had been reissued or retired as of June 30, 2017, but may be reissued or retired by the Company at a later date.
(2) Represents 1.6 million shares, totaling $25.0 million, repurchased concurrently with the issuance of the 1.625% Notes.
(3) Exclusive of fees, commissions and other expenses.

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

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 unaudited 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 restricted stock units 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 amount remitted for the quarter and six months ended June 30, 2017, was $0.6 million and $13.6 million, respectively, for which the Company withheld less than 0.1 million and 0.9 million shares of common stock, respectively, that were underlying the restricted stock units that vested. The amount remitted for the quarter and six months ended July 1, 2016, was $0.2 million and $8.2 million, respectively, for which the Company withheld less than 0.1 million and 0.9 million shares of common stock, respectively, that were underlying the restricted stock units that vested. None of these shares had been reissued or retired as of June 30, 2017; however, these shares may be reissued or retired by the Company at a later date.

Non-Controlling Interest

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

At December 31, 2016, the non-controlling interest balance was $21.8 million. This balance increased to $22.8 million as of June 30, 2017, resulting from the non-controlling interest's $1.0 million share of the earnings for the six months ended June 30, 2017, as compared to $24.8 million as of July 1, 2016 due to the non-controlling interest's $1.1 million share of the earnings for the six months ended July 1, 2016.

Note 9: Share-Based Compensation

Total share-based compensation expense related to the Company's employee stock options, restricted stock units, stock grant awards and ESPP for the quarters and six months ended June 30, 2017 and July 1, 2016 was comprised as follows (in millions):

	Quarter Ended		Six Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Cost of revenues	$ 1.5	$ 2.1	$ 3.0	$ 4.0
Research and development	3.5	2.9	6.4	5.4
Selling and marketing	3.2	2.5	6.0	4.6
General and administrative	12.6	8.6	20.5	13.7
Share-based compensation expense before income taxes	$ 20.8	$ 16.1	$ 35.9	$ 27.7
Related income tax benefits (1)	7.3	—	12.6	—
Share-based compensation expense, net of taxes	$ 13.5	$ 16.1	$ 23.3	$ 27.7

(1) Recognition of related income tax benefits are the result of the adoption of ASU 2016-09 during the first quarter of 2017. Tax benefit calculated using the federal statutory rate of 35%. See Note 2: "Recent Accounting Pronouncements" for more information.

As of June 30, 2017, total estimated unrecognized share-based compensation expense, net of estimated forfeitures, related to non-vested stock options granted prior to that date was less than $0.1 million, which is expected to be recognized over a weighted-average period of 9 months. As of June 30, 2017, total estimated unrecognized share-based compensation expense, net of estimated forfeitures, related to non-vested restricted stock units with time-based service conditions and performance-based vesting criteria granted prior to that date was $96.1 million, which is expected to be recognized over a weighted-average period of 1.9 years. The total intrinsic value of stock options exercised during the quarter and six months ended June 30, 2017 was $1.7 million and $7.5 million, respectively. The Company recorded cash received from the exercise of stock options of $1.7 million and $9.2 million, respectively, during the quarter and six months ended June 30, 2017.

Share-based compensation expense recognized in the Consolidated Statements of Operations and Comprehensive Income 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 and six months ended June 30, 2017 and July 1, 2016. The annualized pre-vesting forfeiture rate for restricted stock units was estimated to be 5% during the quarters and six months ended June 30, 2017 and July 1, 2016.

Shares Available

As of December 31, 2016, there was an aggregate of 19.8 million shares of common stock available for grant under the Company's Amended and Restated SIP and 4.9 million shares available for issuance under the ESPP. As of June 30, 2017, there was an aggregate of 41.5 million shares of common stock available for grant under the Amended and Restated SIP and 8.9 million shares available for issuance under the ESPP.

Stock Options

The following table presents summarized information with respect to the Company's stock options at June 30, 2017 and changes during the six months ended June 30, 2017 (in millions, except per share and contractual term data):

	Six Months Ended June 30, 2017			
	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, 2016	3.3	$ 7.75		
Granted	—	—		
Exercised	(1.1)	8.23		
Canceled	—	—		
Outstanding at June 30, 2017	2.2	$ 7.48	1.56	$ 14.3
Exercisable at June 30, 2017	2.2	$ 7.48	1.56	$ 14.3

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

Additional information with respect to stock options outstanding as of June 30, 2017, with exercise prices less than or above $14.04 per share, the closing price of the Company's common stock at June 30, 2017, is as follows (in millions, except per share data):

	Exercisable		Unexercisable		Total	
Exercise Prices	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share	Number of Shares	Weighted-Average Exercise Price Per Share
Less than $14.04	2.2	$ 7.48	—	$ —	2.2	$ 7.48
Above $14.04	—	$ —	—	$ —	—	$ —
Total outstanding	2.2	$ 7.48	—	$ —	2.2	$ 7.48

Restricted Stock Units

Restricted stock units 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. The following table presents summarized information with respect to the Company's restricted stock units at June 30, 2017 and changes during the six months ended June 30, 2017 (in millions, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Non-vested shares underlying restricted stock units at December 31, 2016	9.7	$ 10.10
Granted	4.0	15.20
Released	(2.9)	9.93
Forfeited	(0.2)	11.79
Non-vested shares underlying restricted stock units at June 30, 2017	10.6	$ 12.04

Note 10: Commitments and Contingencies

Leases

The following represents future minimum lease obligations under non-cancelable operating leases as of June 30, 2017 (in millions):

Remainder of 2017	$ 20.3
2018	30.3
2019	20.8
2020	15.0
2021	10.7
Thereafter	49.4
Total	$ 146.5

Environmental Contingencies

The Company's headquarters in Phoenix, Arizona is 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 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 August 4, 1999 recapitalization (the "Recapitalization"), 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.

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

As part of the Recapitalization, the Company received various manufacturing facilities, one of which is located in the Czech Republic. In regards to this site, the Company has ongoing remediation projects to respond to releases of hazardous substances that occurred prior to the Recapitalization during the years that this facility was operated by government-owned entities. In each case, the remediation project consists 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 at each of the respective locations. The government of the Czech Republic has agreed to indemnify the Company and the respective subsidiaries, subject to specified limitations, for remediation costs associated with this historical contamination. Based upon the information available, total future remediation costs to the Company 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. Based on the information available, any costs to the Company in connection with this matter have not been, and are not expected to be, material.

As a result of the acquisition of AMIS, 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 have included 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. Based on the information available, any costs to the Company in connection with this matter have not been, and are not expected to be, material.

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

Through its acquisition of Fairchild, the Company acquired facilities in South Portland, Maine and West Jordan, Utah. These two facilities have 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. Additionally, under the 1999 asset purchase agreement pursuant to which Fairchild purchased the power device business of Samsung Electronics Co., Ltd. ("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. The costs 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 and are not expected to have a material adverse effect on our consolidated financial position, results of operations or statements of cash flows.

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 is a defunct reclamation services supplier who operated in Illinois at what is now a Superfund site. The Company used Chemetco for reclamation services. 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. Based on the information available, any costs to the Company in connection with this matter have not been, and 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 June 30, 2017, the Company's Revolving Credit Facility included $15.0 million of availability for the issuance of letters of credit. There were $0.8 million of letters of credit outstanding under the Revolving Credit Facility as of June 30, 2017, which reduces the Company's borrowing capacity. The Company also had outstanding guarantees and letters of credit outside of its Revolving Credit Facility totaling $6.3 million as of June 30, 2017.

As part of obtaining financing in the ordinary course of business, the Company issued guarantees related to certain of its capital lease obligations, equipment financing, lines of credit and real estate mortgages, which totaled $129.7 million as of June 30, 2017. The Company is also a guarantor of SCI LLC's non-collateralized loan with SMBC, which had a balance of $141.6 million as of June 30, 2017. See Note 7: "Long-Term Debt" for additional information.

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 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 full extent permitted by Section 145 of the DGCL, as amended from time to time.

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

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.

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 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, (a) it will 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) it will 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, it will 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 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.

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

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 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 nine outstanding administrative proceedings in which the Company is challenging the validity of PI patents at the USPTO.

The outcome of any litigation is inherently uncertain and difficult to predict. Any estimate or statement in this Form 10-Q 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 million and $20 million.

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 and its wholly owned subsidiary, Fairchild Semiconductor Corporation, alleging that certain of Fairchild’s pulse width modulation (“PWM”) integrated circuit products infringed four PI U.S. patents and seeking a permanent injunction preventing Fairchild from manufacturing, selling or offering the products for sale in the United States, or from importing the products into the United States, as well as money damages for past infringement. In October 2006, a jury returned a verdict finding that 33 of Fairchild’s PWM products willfully infringed one or more of seven claims asserted in the four patents 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 almost the entire 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 have since 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 $500,000 to $750,000 worth of sales and imports of affected products, and this case remains in the District Court of Delaware on that basis. The Company believes that damages on the basis of that level of infringing activity would not be material. PI has further requested the lower court to reinstate the earlier judgment of willful infringement, and that request remains pending with the court.

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

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, Fairchild Semiconductor Corporation and its wholly owned subsidiary, System General Corporation (now named Fairchild (Taiwan) Corporation), alleging infringement of three patents. Of the three patents asserted in this lawsuit, two had been asserted against Fairchild and Fairchild Semiconductor Corporation in the October 2004 lawsuit described above. In 2011, PI added a fourth patent to this case. On October 14, 2008, Fairchild Semiconductor Corporation and System General Corporation filed a patent infringement lawsuit against PI in the U.S. District Court for the District of Delaware, alleging that certain PWM integrated circuit products infringe one or more of two U.S. patents owned by System General Corporation. The lawsuit sought monetary damages and an injunction preventing the manufacture, use, sale, offer for sale or importation of PI products found to infringe the asserted patents. The 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 (Taiwan) Corporation and upheld the validity of both of the System General Corporation 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. On June 30, 2014, the court issued an order enjoining Fairchild from making, using, selling, offering to sell or importing into the United States the products found to infringe the PI patents as well as certain products that were similar to the products found to infringe. Willfulness and damages will be determined in the next phase of the case. Fairchild and PI appealed the liability phase of this trial 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 (Taiwan) Corporation patent, and remanded the case back to the lower court for further proceedings consistent with these rulings. The Company expects a re-trial on the remaining issues in 2018.

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. A trial was held in February 2014 on two PI patents and one Fairchild patent. In March 2014, the jury found that Fairchild willfully infringed both PI patents, awarding PI $105.0 million in damages and finding that PI did not infringe the Fairchild patent. Both parties filed various post-trial motions, which were denied by the court with the exception of Fairchild's motion to set aside the jury's determination that it acted willfully. In September 2014, the court granted Fairchild's motion and determined that, as a matter of law, Fairchild's actions were not willful. Fairchild continued to challenge several other aspects of the verdict during post-trial review. Specifically, Fairchild asserted that the damages award included legal and evidentiary defects that were inconsistent with recent rulings by the U.S. Court of Appeals for the Federal Circuit. In November 2014, 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. In February 2015, the court denied PI's request to enjoin the Fairchild products that were found to infringe, finding, among other things, that the evidence at trial failed to establish a causal connection between the alleged harm and the alleged infringement. The court ruled that PI could request an injunction after the second trial on damages, but PI has since indicated that it no longer intends to pursue a permanent injunction. The second damages trial was held in December 2015. In December 2015, a jury awarded PI $139.8 million in damages. Fairchild filed a number of post-trial motions challenging the verdict on several grounds, including several that are similar to challenges to the earlier damages verdict in the case, and the court ruled against Fairchild on these motions and awarded PI approximately $7 million in pre-judgment interest. Following the court's rulings on these issues, PI moved the court for the enhanced damages and attorneys' fees in January 2016, and Fairchild opposed that motion. On January 23, 2017 the court reinstated the jury's willful infringement finding from March 2014, 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. 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. Fairchild's opening brief to the Court of Appeals was filed on July 5, 2017. All claims of the two PI patents found to be infringed by Fairchild are also under review in already-instituted inter partes administrative proceedings at the USPTO.

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

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. The lawsuit accuses PI's LinkSwitch-PH LED power conversion products of violating three of Fairchild'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, PI voluntarily withdrew a second and was forced to remove a third patent during the trial, which began in May 2015. In June 2015, 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 yet to enter a final judgment in this case due to continued overlapping legal issues from the appellate decision in the 2008 Delaware case.

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 switch mode power supply products willfully infringed two PI patents related to frequency jitter and light load frequency reduction. 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 power conversion products. PI has asked the USPTO to institute inter partes administrative proceedings on certain of the asserted claims of Fairchild's patents. 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.

ON Semiconductor Corporation and Semiconductor Components Industries, LLC v. Power Integrations, Inc. (August 11, 2016, Arizona, 2:16-cv-02720-BLF): The Company and SCI LLC (collectively "ON Semi"), filed a lawsuit against PI in the U.S. District Court for the District of Arizona. In the lawsuit, ON Semi is asserting claims of patent infringement on six of its patents related to aspects of PI's power conversion products. In the complaint, ON Semi is seeking a permanent injunction, unspecified damages, a trebling of damages, and an accounting of costs and fees. The lawsuit also seeks a claim for a declaratory judgment for ON Semi of non-infringement of three of PI's patents. All three of the PI patents at issue in the declaratory judgment claims are subject to ON Semi's administrative challenges to those patents currently pending at the USPTO. PI has not yet answered the complaint, but instead has moved to dismiss for lack of jurisdiction and venue or, alternatively, to transfer the lawsuit to the Northern District of California based on the lawsuit filed on November 1, 2016 (described below). In light of a recent decision by the U.S. Supreme Court, the Arizona court transferred this lawsuit to the Northern District of California on June 6, 2017. The parties are investigating the possibility of consolidating this lawsuit with the lawsuit filed on November 1, 2016. The lawsuit is in its earliest stages.

Power Integrations v. ON Semiconductor Corporation, and Semiconductor Components Industries, LLC (November 1, 2016, Northern District of California, 3:16-cv-06371-BLF): This lawsuit was initiated by PI in 2016 in the U.S. District Court for the Northern District of California against ON Semi, alleging infringement of six PI patents. Of the six PI patents asserted in this lawsuit, two overlap with ON Semi's declaratory judgment claims in the August 2016 lawsuit in Arizona and are subject to ON Semi's administrative challenges to those patents currently pending at the USPTO. In the complaint, PI alleges infringement and seeks a permanent injunction, unspecified damages, treble damages, and an accounting of costs and fees. The court has lifted the previous stay and is working with the parties on possible consolidation of this lawsuit with the one transferred from Arizona. The lawsuit is in its earliest stages.

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

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 Semi filed a lawsuit against PI in the U.S. District Court for the District of Delaware, asserting asserted claims of patent infringement on six of its patents directed to aspects of PI's InnoSwitch family of products. In the complaint, ON Semi is seeking a permanent injunction, unspecified damages, treble damages and an accounting of costs and fees. PI has not yet answered the complaint, but instead has moved to dismiss the case for failure to state a claim. The lawsuit is in its earliest stages.

Administrative Challenges to PI's Patents

Between March and August 2016, SCI LLC petitioned the USPTO to institute 12 inter partes reviews, each requesting cancellation of certain claims of six patents owned by PI that have been asserted against the Company, SCI LLC and Fairchild. The USPTO has instituted an inter partes trial, has indicated that SCI LLC is likely to prevail in showing that the challenged claims are unpatentable in nine out of the 12 petitions it has reviewed so far. SCI LLC expects that each inter partes review proceeding will terminate in a Final Written Decision on the patentability of the challenged claims for which review has or will be instituted within one year from institution.

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 warranty. A bench trial was held in June 2017 and the Court has not yet rendered a verdict. Although Acbel is seeking damages in an amount not less than $30 million, the Company is vigorously defending the lawsuit and believes that it has strong defenses.

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, we receive letters asserting that the Company's products or components breach another party's rights. These threats may seek that we make royalty payments, that we stop use of such rights, or other remedies.

Note 11: Fair Value Measurements

Fair Value of Financial Instruments

Summarized information with respect to certain of the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 is as follows (in millions):

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

Description	Balance as of June 30, 2017	Fair Value Measurements as of June 30, 2017		
		Level 1	Level 2	Level 3
Assets:				
Cash and Cash equivalents:				
Demand and time deposits	$ 15.4	$ 15.4	$ —	$ —
Money market funds	0.2	0.2	—	—
Liabilities:				
Contingent consideration	6.8	—	—	6.8

Description	Balance as of December 31, 2016	Fair Value Measurements as of December 31, 2016		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents:				
Demand and time deposits	$ 67.2	$ 67.2	$ —	$ —
Money market funds	30.3	30.3	—	—
Liabilities:				
Contingent consideration	4.5	—	—	4.5

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) as of June 30, 2017 and December 31, 2016 are as follows (in millions):

	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion				
Convertible notes	$ 1,060.4	$ 1,294.0	$ 953.6	$ 1,160.9
Long-term debt	$ 2,037.0	$ 2,118.2	$ 2,616.3	$ 2,731.5

The fair value of the Company’s 1.00% Notes, 1.625% Notes and Term Loan “B” Facility 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) as of June 30, 2017 and December 31, 2016.

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 fair value becomes the new cost basis of the investment. 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.

As of June 30, 2017 and December 31, 2016, the Company's cost method investments had a carrying value of $12.6 million and $12.3 million, respectively.

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, or 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 June 30, 2017 and December 31, 2016, the Company had net outstanding foreign exchange contracts with notional amounts of $125.9 million and $95.9 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 as of June 30, 2017 and December 31, 2016 (in millions):

	June 30, 2017		December 31, 2016	
	Buy (Sell)	Notional Amount	Buy (Sell)	Notional Amount
Euro	$ (38.7)	$ 38.7	$ (25.4)	$ 25.4
Japanese Yen	(21.1)	21.1	(33.7)	33.7
Philippine Peso	21.2	21.2	15.8	15.8
Other Currencies - Buy	30.6	30.6	(6.1)	6.1
Other Currencies - Sell	(14.3)	14.3	14.9	14.9
	$ (22.3)	$ 125.9	$ (34.5)	$ 95.9

The Company is exposed to credit-related losses if counterparties to its foreign exchange contracts fail to perform their obligations. As of June 30, 2017, the counterparties to the Company's foreign currency hedge contracts as well as the cash flow hedges described below are held at financial institutions which the Company believes to be highly rated, and no credit-related losses are anticipated. 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 June 30, 2017 and July 1, 2016, realized and unrealized foreign currency transactions totaled a $0.1 million gain and a $1.8 million loss, respectively. For the six months ended June 30, 2017 and July 1, 2016, realized and unrealized foreign currency transactions totaled a $2.8 million loss and a $3.3 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.

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 each of the quarter and six months ended June 30, 2017, the Company recorded a net loss of zero, and for each of the quarter and six months ended June 30, 2016, the Company recorded a net loss of $0.2 million, in all cases associated with cash flow hedges recognized as a component of cost of revenues.

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, $750.0 million and $1.0 billion expiring on December 29, 2017, December 31, 2018 and December 31, 2019, respectively, effectively hedging 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 has performed an effectiveness assessment and concluded that there is no ineffectiveness during the quarter and six months ended June 30, 2017. As of June 30, 2017, the aggregate notional value of the interest rate swap contracts was $500.0 million.

The Company did not have any interest rate swap contracts outstanding during the quarter and six months ended July 1, 2016.

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 six months ended June 30, 2017.

Convertible Note Hedges

The Company entered into convertible note hedges in connection with the issuance of the 1.625% Notes. See Note 7: "Long-Term Debt" for further details.

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)

ASU 2016-09 requires the tax effects of all equity award excess tax benefits to be recognized discretely in the quarter in which they occur. The Company's effective tax rate for the quarter ended June 30, 2017 was 34.1%, which differs from the U.S. statutory federal income tax rate of 35% principally due to the discrete impact of ASU 2016-09. See Note 2 "Recent Accounting Pronouncements."

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 $5.0 million and $4.4 million of net interest and penalties accrued at June 30, 2017 and July 1, 2016, respectively.

Although the Company cannot predict the timing of resolution with taxing authorities, if any, it believes it is reasonably possible that $8.9 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 prior to 2013 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 prior to 2012. 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 2006. The Company is currently under audit in the following significant jurisdictions: Malaysia, China and the Philippines.

Note 14: Changes in Accumulated Other Comprehensive Loss

Amounts comprising the Company's accumulated other comprehensive loss and reclassifications for the six months ended June 30, 2017 are as follows (net of tax benefit of $0.2, in millions):

	Foreign Currency Translation Adjustments	Effects of Cash Flow Hedges	Total
Balance as of December 31, 2016	$ (50.2)	$ —	$ (50.2)
Other comprehensive income (loss) prior to reclassifications (1) (2)	7.1	(0.5)	6.6
Amounts reclassified from accumulated other comprehensive loss	—	(0.2)	(0.2)
Net current period other comprehensive loss	7.1	(0.7)	6.4
Balance as of June 30, 2017	$ (43.1)	$ (0.7)	$ (43.8)

(1) Foreign currency translation adjustments are net of tax of zero for the six months ended June 30, 2017.
(2) Effects of cash flow hedges are net of tax of $0.4 million of tax benefit for the six months ended June 30, 2017.

Amounts which were reclassified from accumulated other comprehensive loss to the Company's Consolidated Statements of Operations and Comprehensive Income during the quarters and six months ended June 30, 2017 and July 1, 2016, respectively, were as follows (net of tax of zero, in millions):

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

	Amounts Reclassified from Accumulated Other Comprehensive Loss				
	Quarter Ended		Six Months Ended		
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016	Statement of Operations and Comprehensive Income Line Item
Effects of cash flow hedges	$ —	$ —	$ —	$ 0.2	Cost of revenues
Effects of cash flow hedges	—	—	0.2	—	Other income and expense
Total reclassifications	$ —	$ —	$ 0.2	$ 0.2	

Note 15: Supplemental Disclosures

Supplemental Disclosure of Cash Flow Information

Certain of the Company’s non-cash activities along with cash payments for interest and income taxes are as follows (in millions):

	Six Months Ended	
	June 30, 2017	July 1, 2016
Non-cash activities:		
Term Loan “B” Facility proceeds deposited directly to escrow account	$ —	$ 2,167.0
Debt issuance costs in accrued expenses	$ —	$ 46.1
Capital expenditures in accounts payable and other liabilities	$ 196.4	$ 73.4
Cash (received) paid for:		
Interest income	$ (1.1)	$ (2.4)
Interest expense	$ 49.0	$ 32.2
Income taxes	$ 35.5	$ 12.6

Note 16: Segment Information

During the third quarter of 2016, the Company realigned its segments into three operating segments to optimize efficiencies resulting from the acquisition of Fairchild. These operating segments also represent its three reporting segments: Power Solutions Group, Analog Solutions Group, and Image Sensor Group. The results of the System Solutions Group, which was previously the Company’s fourth operating segment, and which did not have goodwill, are now part of the three operating segments and previously-reported information has been presented based on the new structure to reflect the current organizational structure. The Company’s Power and Analog Solutions Groups include the business acquired from Fairchild.

Each of the Company’s major product lines has been examined, and each product line has been 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.

Revenues and gross profit for the Company’s reportable segments for the quarters and six months ended June 30, 2017 and July 1, 2016 are as follows (in millions):

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

	Power Solutions Group	Analog Solutions Group	Image Sensor Group	Total
For the quarter ended June 30, 2017:				
Revenues from external customers	$ 671.4	$ 468.5	$ 198.1	$ 1,338.0
Gross profit	$ 228.5	$ 195.8	$ 75.0	$ 499.3
For the quarter ended July 1, 2016:				
Revenues from external customers	$ 353.7	$ 337.6	$ 186.5	$ 877.8
Gross profit	$ 116.5	$ 142.5	$ 60.5	$ 319.5
For the six months ended June 30, 2017:				
Revenues from external customers	$ 1,415.2	$ 972.1	$ 387.4	$ 2,774.7
Gross profit	$ 472.6	$ 405.2	$ 142.4	$ 1,020.2
For the six months ended July 1, 2016:				
Revenues from external customers	$ 680.6	$ 648.9	$ 365.5	$ 1,695.0
Gross profit	$ 219.7	$ 259.8	$ 122.7	$ 602.2

Gross profit is exclusive of the amortization of acquisition-related intangible assets. Depreciation expense is included in segment gross profit. Reconciliations of segment gross profit to consolidated gross profit are as follows (in millions):

	Quarter Ended		Six Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Gross profit for reportable segments	$ 499.3	$ 319.5	$ 1,020.2	$ 602.2
Less: unallocated manufacturing costs	(7.2)	(11.6)	(24.8)	(18.8)
Consolidated Gross profit	$ 492.1	$ 307.9	$ 995.4	$ 583.4

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 gross profit by geographical location.

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

	Quarter Ended		Six Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
United States	$ 175.3	$ 139.6	$ 389.0	$ 280.5
Japan	104.3	81.5	211.0	165.8
Hong Kong	444.3	217.1	917.3	395.1
Singapore	333.7	256.0	677.9	502.4
United Kingdom	156.4	141.0	318.7	275.1
Other	124.0	42.6	260.8	76.1
	$ 1,338.0	$ 877.8	$ 2,774.7	$ 1,695.0

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):

	June 30, 2017	December 31, 2016
United States	$ 549.4	$ 548.1
Korea	374.4	385.9
Malaysia	233.2	224.0
Philippines	410.4	381.7
China	238.1	217.7
Other	409.5	401.7
	$ 2,215.0	$ 2,159.1

For the quarters ended June 30, 2017 and July 1, 2016, there were no individual customers, including distributors, which accounted for 10% or more of the Company's total consolidated revenues.

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, 2016 ("2016 Form 10-K"), filed with the SEC on February 28, 2017, and our unaudited consolidated financial statements for the fiscal quarter ended June 30, 2017, 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 2016 Form 10-K.

Company Highlights for the Quarter Ended June 30, 2017

- Total revenues of approximately $1,338.0 million
- Gross margin of approximately 36.8%
- Net income of $0.22 per diluted share
- Cash and cash equivalents of approximately $871.6 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 3.0% 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 use analog, MCU, DSP, mixed-signal and advanced logic capabilities to act as the brain behind 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 a leadership position in 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, robotics and the IoT.

Our portfolio of devices enables us to offer advanced ICs and the "building block" components that deliver system level functionality and design solutions. Our extensive product portfolio consisted of approximately 93,000 products as of June 30, 2017 and we shipped approximately 36.0 billion units during the six months ended June 30, 2017, as compared to 26.7 billion units during the six months ended July 1, 2016.

Acquisition of Fairchild

On September 19, 2016, we completed our acquisition of Fairchild, pursuant to the Fairchild Agreement with each of Fairchild and Falcon Operations Sub, Inc., a Delaware corporation and our wholly-owned subsidiary, which provided for the acquisition of Fairchild by us (the "Fairchild Transaction"). The purchase price totaled $2,532.2 million and was funded by the borrowings against our Term Loan "B" Facility and Revolving Credit Facility (as such terms are defined below under "Key Financing and Capital Events — Overview") and with cash on hand.

We believe that this acquisition creates a power semiconductor leader with strong capabilities in a rapidly consolidating semiconductor industry. Ultimately, we believe that the combination of Fairchild operations with our own will provide complementary product lines to offer customers the full spectrum of high, medium and low voltage products, and we will continue to pioneer technology and design innovation in efficient energy consumption to help our customers achieve success and drive value for our partners and employees around the world. We believe the acquisition also expands our footprint in wireless communication products, particularly in high efficiency power conversions and USB type C communication and power delivery.

Segments

During the third quarter of 2016, we realigned our segments into three operating segments, which also represent our three reporting segments, to optimize efficiencies resulting from the acquisition of Fairchild: Power Solutions Group, Analog Solutions Group and Image Sensor Group. Previously-reported information has been presented based on the new structure to reflect the current organizational structure. The Company's Power and Analog Solutions Groups include the business acquired in the Fairchild Transaction. Each of our major product lines has been assigned to a segment based on our operating strategy.

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

We have recognized efficiencies from restructuring activities and programs and continue to implement profitability enhancement programs to improve our cost structure. 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 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, and focusing on synergies related cost reductions from each of our acquisitions. See “Restructuring, Asset Impairments and Other, Net” under the heading “Results of Operations — Quarter Ended June 30, 2017 Compared to the Quarter Ended July 1, 2016 — Other Operating Expenses” and “Results of Operations — Six Months Ended June 30, 2017 Compared to the Six Months Ended July 1, 2016 — Other Operating Expenses” below, related to our current programs.

Outlook

ON Semiconductor Third Quarter 2017 Outlook

Based upon product booking trends, backlog levels, and estimated turns levels, we estimate that our revenues will be approximately $1,340 million to $1,390 million in the third quarter of 2017. Backlog levels for the third quarter of 2017 represent approximately 80% to 85% of our anticipated third quarter 2017 revenues. For the third quarter of 2017, we estimate that gross margin as a percentage of revenues will be approximately 36.0% to 38.0%.

Statements related to our outlook for the third quarter of 2017 are based on our current expectations, forecasts, estimates and assumptions. Such statements involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in the forward-looking statements. See Item 1A .“Risk Factors,” for additional information.

Table of Contents

Results of Operations

Quarter Ended June 30, 2017 Compared to the Quarter Ended July 1, 2016

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements for the quarters ended June 30, 2017 and July 1, 2016 (in millions):

	Quarter Ended		
	June 30, 2017	July 1, 2016	Dollar Change
Revenues	$ 1,338.0	$877.8	$ 460.2
Cost of revenues (exclusive of amortization shown below)	845.9	569.9	276.0
Gross profit	492.1	307.9	184.2
Operating expenses:			
Research and development	145.5	103.0	42.5
Selling and marketing	79.5	52.7	26.8
General and administrative	76.6	46.0	30.6
Amortization of acquisition-related intangible assets	28.6	23.5	5.1
Restructuring, asset impairments and other, net	5.9	5.2	0.7
Intangible asset impairment	1.8	2.2	(0.4)
Total operating expenses	337.9	232.6	105.3
Operating income	154.2	75.3	78.9
Other (expense) income, net:			
Interest expense	(34.7)	(42.1)	7.4
Interest income	0.5	2.1	(1.6)
Licensing income	23.9	—	23.9
Other	(0.7)	(1.9)	1.2
Other (expense) income, net	(11.0)	(41.9)	30.9
Income before income taxes	143.2	33.4	109.8
Income tax provision	(48.8)	(7.6)	(41.2)
Net income	94.4	25.8	68.6
Less: Net income attributable to non-controlling interest	(0.5)	(0.7)	0.2
Net income attributable to ON Semiconductor Corporation	$ 93.9	$ 25.1	$ 68.8

Revenues

Revenues were $1,338.0 million and $877.8 million for the quarters ended June 30, 2017 and July 1, 2016, respectively, representing an increase of $460.2 million, or approximately 52%. The increase is primarily attributed to an increase in revenue in our Power Solutions and Analog Solutions Groups, which was primarily due to contributions from Fairchild.

Revenues by reportable segment for the quarters ended June 30, 2017 and July 1, 2016 were as follows (dollars in millions):

	Quarter Ended June 30, 2017	As a % of Total Revenue (1)	Quarter Ended July 1, 2016	As a % of Total Revenue (1)
Power Solutions Group	$ 671.4	50.2%	$ 353.7	40.3%
Analog Solutions Group	468.5	35.0%	337.6	38.5%
Image Sensor Group	198.1	14.8%	186.5	21.2%
Total revenues	$ 1,338.0		$ 877.8	

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

Revenues from the Power Solutions Group increased by $317.7 million, or approximately 90%, for the quarter ended June 30, 2017 compared to the quarter ended July 1, 2016. This increase was primarily attributable to the acquisition of Fairchild which had revenues across various products within this segment. For the combined company, revenues from our TMOS products increased $140.3 million, or approximately 224%, revenues from our discrete products increased by $82.4 million, or approximately 61%, revenues from our IPM products increased by $48.5 million, or approximately 212%, and revenues from our new Optoelectronics products were $21.1 million.

Revenues from the Analog Solutions Group increased by $130.9 million, or approximately 39%, for the quarter ended June 30, 2017 compared to the quarter ended July 1, 2016. This increase is primarily attributable to the acquisition of Fairchild which had revenues across various products within this segment. For the combined company, revenues from our analog products increased by $104.7 million, or approximately 104%, and revenues from our TMOS products increased by $11.2 million, or approximately 104%.

Revenues from the Image Sensor Group increased by $11.6 million, or approximately 6%, for the quarter ended June 30, 2017 compared to the quarter ended July 1, 2016. This increase is primarily attributable to a $15.0 million, or approximately 10%, increase in revenues from our CMOS Images Sensor products, partially offset by a $3.0 million, or approximately 22%, decrease in revenues from our LSI products.

Revenues by geographic location, including local sales made by operations within each area, based on sales billed from the respective country for the quarters ended June 30, 2017 and July 1, 2016, are summarized as follows (dollars in millions):

	Quarter Ended June 30, 2017	As a % of Total Revenue (1)	Quarter Ended July 1, 2016	As a % of Total Revenue (1)
United States	$ 175.3	13.1%	$ 139.6	15.9%
Japan	104.3	7.8%	81.5	9.3%
Hong Kong	444.3	33.2%	217.1	24.7%
Singapore	333.7	24.9%	256.0	29.2%
United Kingdom	156.4	11.7%	141.0	16.1%
Other	124.0	9.3%	42.6	4.9%
Total	$ 1,338.0		$ 877.8	

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

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices. For the quarters ended June 30, 2017 and July 1, 2016, we had no single customer that accounted for 10% or more of our total revenues.

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

Our gross profit by reportable segment for the quarters ended June 30, 2017 and July 1, 2016 was as follows (dollars in millions):

	Quarter Ended June 30, 2017	As a % of Segment Revenue (1)	Quarter Ended July 1, 2016	As a % of Segment Revenue (1)
Power Solutions Group	$ 228.5	34.0 %	$ 116.5	32.9 %
Analog Solutions Group	195.8	41.8 %	142.5	42.2 %
Image Sensor Group	75.0	37.9 %	60.5	32.4 %
Gross profit for reportable segment	$ 499.3		$ 319.5	
Unallocated manufacturing costs	(7.2)	(0.5)%	(11.6)	(1.3)%
Consolidated gross profit	$ 492.1	36.8 %	$ 307.9	35.1 %

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

Our gross profit was $492.1 million for the quarter ended June 30, 2017 compared to $307.9 million for the quarter ended July 1, 2016. The gross profit increase of $184.2 million, or approximately 60%, is primarily due to an increase in gross profit in our Power Solutions Group and Analog Solutions Group, which included contributions from the acquired Fairchild business. This increase was partially offset by $1.3 million of expensing of the fair market value of inventory step-up from the Fairchild acquisition.

Gross profit as a percentage of revenues increased to approximately 36.8% for the quarter ended June 30, 2017 from approximately 35.1% for the quarter ended July 1, 2016. The increase was primarily due to contributions from the acquired Fairchild business, higher factory utilization and product mix.

Operating Expenses

Research and development expenses were $145.5 million for the quarter ended June 30, 2017, compared to $103.0 million for the quarter ended July 1, 2016, representing an increase of $42.5 million, or approximately 41%. This increase was primarily due to the acquisition of Fairchild, primarily in the area of payroll, including incentive compensation and payroll related costs as well as an overall increase in variable compensation for the combined Company.

Selling and marketing expenses were $79.5 million for the quarter ended June 30, 2017, compared to $52.7 million for the quarter ended July 1, 2016, representing an increase of $26.8 million, or approximately 51%. This increase was primarily due to the acquisition of Fairchild, primarily in the area of payroll, including incentive compensation and payroll related costs as well as an overall increase in variable compensation for the combined Company.

General and administrative expenses were $76.6 million for the quarter ended June 30, 2017, compared to $46.0 million in the quarter ended July 1, 2016, representing an increase of $30.6 million, or approximately 67%. This increase was primarily due to the acquisition of Fairchild, primarily in the area of payroll, including incentive compensation and payroll related costs as well as an overall increase in variable compensation and outside services for the combined Company. In addition, a reversal of the provision for doubtful accounts of $3.8 million during the quarter ended July 1, 2016 contributed to the increase.

Other Operating Expenses

Amortization of Acquisition-Related Intangible Assets

Amortization of acquisition-related intangible assets was $28.6 million and $23.5 million for the quarters ended June 30, 2017 and July 1, 2016, respectively, representing an increase of $5.1 million, or approximately 22%. This increase was primarily associated with the amortization of our intangible assets acquired from the Fairchild acquisition partially offset by the declining amortization of our Aptina intangible assets. Amortization of acquired intangible assets from the Fairchild acquisition was $11.9 million in the second quarter of 2017.

Restructuring, Asset Impairments and Other, Net

Restructuring, asset impairments and other, net resulted in expense of $5.9 million for the quarter ended June 30, 2017 compared to $5.2 million for the quarter ended July 1, 2016.

See Note 5: “Restructuring, Asset Impairments and Other, Net” in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for additional information.

Intangible Asset Impairment

During the quarters ended June 30, 2017 and July 1, 2016, we abandoned certain of our previously capitalized IPRD projects and recorded impairment charges of $1.8 million and $2.2 million, respectively.

Interest Expense

Interest expense decreased by $7.4 million to $34.7 million during the quarter ended June 30, 2017 compared to $42.1 million during the quarter ended July 1, 2016 due to a reduction in the underlying interest rates for the term loan “B” facility and the revolving credit facility. Our average gross long-term debt balance (including current maturities) for the quarter ended June 30, 2017 was $3,472.9 million at a weighted-average interest rate of approximately 4.0%, compared to $2,563.7 million at a weighted-average interest rate of approximately 6.6% for the quarter ended July 1, 2016.

Licensing Income

Licensing income was $23.9 million for the quarter ended June 30, 2017 compared to zero for the quarter ended July 1, 2016, due to payments received under an asset purchase agreement with HSET Electronic Tech (Hong Kong) Limited to sell inventory and license patents related to its Mobile CIS business for $75 million. See Note 3: “Acquisitions and Divestitures” in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for additional information.

Other

Other expense decreased by $1.2 million to $0.7 million for the quarter ended June 30, 2017 compared to $1.9 million for the quarter ended July 1, 2016, primarily attributable to fluctuations in foreign currencies against the U.S. dollar for the periods presented, net of the impact of our hedging activity and an adjustment to contingent consideration.

Provision for Income Taxes

We recorded an income tax provision of $48.8 million and $7.6 million during the quarters ended June 30, 2017 and July 1, 2016, respectively.

The income tax provision for the quarter ended June 30, 2017 consisted primarily of $50.2 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 $1.2 million for reserves and interest for uncertain tax positions in foreign taxing jurisdictions which were effectively settled or for which the statute lapsed and a discrete benefit of $0.5 million relating to equity award excess tax benefits.

The income tax provision for the quarter ended July 1, 2016 consisted primarily of $6.2 million for income and withholding taxes of certain of our foreign and domestic operations and $2.3 million of new reserves and interest on existing reserves for uncertain prior year tax positions, partially offset by the reversal of $0.9 million for reserves and interest for uncertain tax positions in foreign taxing jurisdictions which were effectively settled or for which the statute lapsed during the quarter ended July 1, 2016.

Our effective tax rate for the quarter ended June 30, 2017 was 34.1%, which differs from the U.S. statutory federal income tax rate of 35% principally due to the impact of ASU 2016-09, see Note 2: “Recent Accounting Pronouncements” in the notes to our unaudited consolidated financial statements, included elsewhere in this Form 10-Q. ASU 2016-09 requires the tax effects of all equity award excess tax benefits to be recognized discretely in the quarter in which they occur.

We have not made an indefinite reinvestment assertion related to current year foreign earnings. As a result, we expect our effective tax rate to more approximate the U.S. statutory federal rate of 35%, excluding discrete items. The increase in our effective tax rate from not making an indefinite reinvestment assertion on our foreign earnings is not anticipated to have an effect on our cash taxes until all of our U.S. federal net operating losses and credits have been utilized.

Table of Contents

Results of Operations

Six Months Ended June 30, 2017 Compared to the Six Months Ended July 1, 2016

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements for the six months ended June 30, 2017 and July 1, 2016 (in millions):

	Six Months Ended		
	June 30, 2017	July 1, 2016	Dollar Change
Revenues	$ 2,774.7	$1,695.0	$ 1,079.7
Cost of revenues (exclusive of amortization shown below)	1,779.3	1,111.6	667.7
Gross profit	995.4	583.4	412.0
Operating expenses:			
Research and development	285.5	201.0	84.5
Selling and marketing	157.0	101.9	55.1
General and administrative	145.0	90.5	54.5
Amortization of acquisition-related intangible assets	57.7	47.2	10.5
Restructuring, asset impairments and other, net	6.4	6.9	(0.5)
Intangible asset impairment	6.2	2.2	4.0
Total operating expenses	657.8	449.7	208.1
Operating income	337.6	133.7	203.9
Other (expense) income, net:			
Interest expense	(73.1)	(57.7)	(15.4)
Interest income	1.1	2.4	(1.3)
Licensing income	23.9	—	23.9
Loss on debt refinancing and prepayment	(26.2)	—	(26.2)
Other	(5.1)	(3.3)	(1.8)
Other expense, net	(79.4)	(58.6)	(20.8)
Income before income taxes	258.2	75.1	183.1
Income tax provision	(85.1)	(12.9)	(72.2)
Net income	173.1	62.2	110.9
Less: Net income attributable to non-controlling interest	(1.0)	(1.1)	0.1
Net income attributable to ON Semiconductor Corporation	$ 172.1	$ 61.1	$ 111.0

Revenues

Revenues were $2,774.7 million and $1,695.0 million for the six months ended June 30, 2017 and July 1, 2016, respectively, representing an increase of $1,079.7 million, or approximately 64%. The increase is primarily attributed to an increase in revenue in our Power Solutions and Analog Solutions Groups, which was primarily due to contributions from Fairchild and $155.1 million in revenue due to the change in revenue recognition on distributor sales during the quarter ended March 31, 2017. See Note 1: “Background and Basis of Presentation” in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for further details.

Revenues by reportable segment for the six months ended June 30, 2017 and July 1, 2016 were as follows (dollars in millions):

	Six Months Ended June 30, 2017	As a % of Total Revenue (1)	Six Months Ended July 1, 2016	As a % of Total Revenue (1)
Power Solutions Group	$ 1,415.2	51.0%	$ 680.6	40.2%
Analog Solutions Group	972.1	35.0%	648.9	38.3%
Image Sensor Group	387.4	14.0%	365.5	21.6%
Total revenues	$ 2,774.7		$ 1,695.0	

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

Revenues from the Power Solutions Group increased by $734.6 million, or approximately 108%, for the six months ended June 30, 2017 compared to the six months ended July 1, 2016. This increase was primarily attributable to the acquisition of Fairchild, which had revenues across various products within this segment, as well as $107.8 million due to the change in revenue recognition on distributor sales during the quarter ended March 31, 2017. For the combined company, revenues from our TMOS products increased $271.7 million, or approximately 216%, revenues from our discrete products increased by $156.1 million, or approximately 58%, revenues from our IPM products increased $96.7 million, or approximately 229%, revenues from our standard logic products increased $24.8 million, or approximately 64%, and revenues from our new Optoelectronics products were $39.3 million.

Revenues from the Analog Solutions Group increased by $323.2 million, or approximately 50%, for the six months ended June 30, 2017 compared to the six months ended July 1, 2016. This increase is primarily attributable to the acquisition of Fairchild, which had revenues across various products within this segment, as well as $42.1 million due to the change in revenue recognition on distributor sales during the quarter ended March 31, 2017. For the combined company, revenues from our analog products increased by $221.5 million, or approximately 116%, revenues from our TMOS products increased by $23.1 million, or approximately 107%, and revenues from our ASIC products increased by $21.9 million, or approximately 8%.

Revenues from the Image Sensor Group increased by $21.9 million, or approximately 6%, for the six months ended June 30, 2017 compared to the six months ended July 1, 2016. This increase is primarily attributable to a $15.9 million, or approximately 6%, increase in revenues from our CMOS Images Sensor products, a $7.2 million, or approximately 14%, increase in revenues from our ASIC products, $5.1 million due to the change in revenue recognition on distributor sales during the quarter ended March 31, 2017, partially offset by a $6.3 million, or approximately 26%, decrease in revenues from our LSI products.

Revenues by geographic location, including local sales made by operations within each area, based on sales billed from the respective country for the six months ended June 30, 2017 and July 1, 2016, are summarized as follows (dollars in millions):

	Six Months Ended June 30, 2017	As a % of Total Revenue (1)	Six Months Ended July 1, 2016	As a % of Total Revenue (1)
United States	$ 389.0	14.0%	$ 280.5	16.5%
Japan	211.0	7.6%	165.8	9.8%
Hong Kong	917.3	33.1%	395.1	23.3%
Singapore	677.9	24.4%	502.4	29.6%
United Kingdom	318.7	11.5%	275.1	16.2%
Other	260.8	9.4%	76.1	4.5%
Total	$ 2,774.7		$ 1,695.0	

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

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices. For the six months ended June 30, 2017 and July 1, 2016, we had no single customer that accounted for 10% or more of our total revenues.

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

Our gross profit by reportable segment for the six months ended June 30, 2017 and July 1, 2016 was as follows (dollars in millions):

	Six Months Ended June 30, 2017	As a % of Segment Revenue (1)	Six Months Ended July 1, 2016	As a % of Segment Revenue (1)
Power Solutions Group	$ 472.6	33.4%	$ 219.7	32.3%
Analog Solutions Group	405.2	41.7%	259.8	40.0%
Image Sensor Group	142.4	36.8%	122.7	33.6%
Gross profit for reportable segment	$ 1,020.2		$ 602.2	
Unallocated manufacturing costs	(24.8)	(0.9)%	(18.8)	(1.1)%
Consolidated gross profit	$ 995.4	35.9%	$ 583.4	34.4%

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

Our gross profit was $995.4 million for the six months ended June 30, 2017 compared to $583.4 million for the six months ended July 1, 2016. The gross profit increase of $412.0 million, or approximately 71%, is primarily due to an increase in gross profit in our Power Solutions Group and Analog Solutions Group, which included contributions from the acquired Fairchild business as well as $59.0 million due to the change in the revenue recognition on distributor sales during the quarter ended March 31, 2017. This increase was partially offset by $11.1 million of expensing of the fair market value of inventory step-up from the Fairchild acquisition.

Gross profit as a percentage of revenues increased to approximately 35.9% in the six months ended June 30, 2017 from approximately 34.4% for the six months ended July 1, 2016. Excluding the impact of the change in the revenue recognition on distributor sales, the gross profit for the first six months of 2017 was 35.7%. The increase was primarily due to contributions from the acquired Fairchild business, higher factory utilization and product mix.

Operating Expenses

Research and development expenses were $285.5 million for the six months ended June 30, 2017, compared to $201.0 million for the six months ended July 1, 2016, representing an increase of $84.5 million, or approximately 42%. This increase was primarily due to the acquisition of Fairchild, primarily in the area of payroll, including incentive compensation and payroll related costs as well as an overall increase in variable compensation for the combined Company.

Selling and marketing expenses were $157.0 million for the six months ended June 30, 2017, compared to $101.9 million for the six months ended July 1, 2016, representing an increase of $55.1 million, or approximately 54%. This increase was primarily due to the acquisition of Fairchild, primarily in the area of payroll, including incentive compensation and payroll related costs as well as an overall increase in variable compensation for the combined Company.

General and administrative expenses were $145.0 million for the six months ended June 30, 2017, compared to $90.5 million in the six months ended July 1, 2016, representing an increase of $54.5 million, or approximately 60%. This increase was primarily due to the acquisition of Fairchild, primarily in the area of payroll, including incentive compensation and payroll related costs as well as an overall increase in variable compensation and outside services for the combined Company.

Other Operating Expenses

Amortization of Acquisition-Related Intangible Assets

Amortization of acquisition-related intangible assets was $57.7 million and $47.2 million for the six months ended June 30, 2017 and July 1, 2016, respectively, representing a increase of $10.5 million, or approximately 22%. This increase was primarily associated with the amortization of our intangible assets acquired from the Fairchild acquisition partially offset by the declining amortization of our Aptina intangible assets. Amortization of acquired intangible assets from the Fairchild Transaction was $24.6 million for the six months ended June 30, 2017.

Restructuring, Asset Impairments and Other, Net

Restructuring, asset impairments and other, net resulted in expense of $6.4 million for the six months ended June 30, 2017 compared to $6.9 million for the six months ended July 1, 2016.

See Note 5: "Restructuring, Asset Impairments and Other, Net" in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for additional information.

Intangible Asset Impairment

During the six months ended June 30, 2017 and July 1, 2016, we abandoned certain of our previously capitalized IPRD projects and recorded impairment charges of $6.2 million and $2.2 million, respectively.

Interest Expense

Interest expense increased by $15.4 million to $73.1 million during the six months ended June 30, 2017 compared to $57.7 million during the six months ended July 1, 2016 due to the indebtedness incurred in order to acquire Fairchild. We expect interest expense to remain material in future periods as we service the debt we incurred in connection with the Fairchild transaction. Our average gross long-term debt balance (including current maturities) for the six months ended June 30, 2017 was $3,607.1 million at a weighted-average interest rate of approximately 4.1%, compared to $2,584.0 million at a weighted-average interest rate of approximately 4.5% for the six months ended July 1, 2016.

Licensing Income

Licensing income was $23.9 million for the six months ended June 30, 2017 compared to zero for the six months ended July 1, 2016, due to payments received under an asset purchase agreement with HSET Electronic Tech (Hong Kong) Limited to sell inventory and license patents related to its Mobile CIS business for $75 million. See Note 3: "Acquisitions and Divestitures" in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for additional information.

Loss on Debt Refinancing and Prepayment

Loss on debt refinancing and prepayment was $26.2 million for the six months ended June 30, 2017 compared to zero for the six months ended July 1, 2016, due to 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. 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.

Other

Other expense increased by $1.8 million to $5.1 million for the six months ended June 30, 2017 compared to $3.3 million for the six months ended July 1, 2016, primarily attributable to fluctuations in foreign currencies against the U.S. dollar for the periods presented, net of the impact of our hedging activity and an adjustment to contingent consideration.

Provision for Income Taxes

We recorded an income tax provision of $85.1 million and $12.9 million during the six months ended June 30, 2017 and July 1, 2016, respectively.

The income tax provision for the six months ended June 30, 2017 consisted primarily of $91.0 million for income and withholding taxes of certain of our foreign and domestic operations, $0.6 million of new interest on existing reserves for uncertain tax positions in foreign taxing jurisdictions, offset by a discrete benefit of $1.2 million for reserves and interest for uncertain tax positions in foreign taxing jurisdictions which were effectively settled or for which the statute lapsed and a discrete benefit of $5.3 million relating to equity award excess tax benefits.

The income tax provision for the six months ended July 1, 2016 consisted primarily of $12.2 million for income and withholding taxes of certain of our foreign and domestic operations and $2.6 million of new reserves and interest on existing reserves for uncertain prior year tax positions in foreign taxing jurisdictions, partially offset by the reversal of $1.9 million for reserves and interest for uncertain tax positions in foreign taxing jurisdictions which were effectively settled or for which the statute lapsed during the six months ended July 1, 2016.

Our effective tax rate for the six months ended June 30, 2017 was 33.0%, which differs from the U.S. statutory federal income tax rate of 35% principally due to the impact of ASU 2016-09, see Note 2: “Recent Accounting Pronouncements” in the notes to our unaudited consolidated financial statements, included elsewhere in this Form 10-Q. ASU 2016-09 requires the tax effects of all equity award excess tax benefits to be recognized discretely in the quarter in which they occur.

We have not made an indefinite reinvestment assertion related to current year foreign earnings. As a result, we expect our effective tax rate to more approximate the U.S. statutory federal rate of 35%, excluding discrete items. The increase in our effective tax rate from not making an indefinite reinvestment assertion on our foreign earnings is not anticipated to have an effect on our cash taxes 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 June 30, 2017, there were no material changes outside of the ordinary course of business to the contractual obligations table, including the notes thereto, contained in our 2016 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 $871.6 million as of June 30, 2017. 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 June 30, 2017 include approximately $292.8 million available within the United States. While we hold a significant amount of cash, cash equivalents and short-term investments 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.

See Note 7: “Long-Term Debt” in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for 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 June 30, 2017, our Revolving Credit Facility included $15.0 million of availability for the issuance of letters of credit. There were $0.8 million of letters of credit outstanding under our Revolving Credit Facility as of June 30, 2017. We also had outstanding guarantees and letters of credit outside of our Revolving Credit Facility of $6.3 million as of June 30, 2017.

As part of securing financing in the ordinary course of business, we issued guarantees related to certain of our capital lease obligations, equipment financing, lines of credit and real estate mortgages, which totaled $129.7 million as of June 30, 2017. We are also a guarantor of SCI LLC's non-collateralized loan with SMBC, which had a balance of $141.6 million as of June 30, 2017. See Note 7: "Long-Term Debt" and Note 10: "Commitments and Contingencies" in the notes to our unaudited consolidated financial statements found elsewhere in this Form 10-Q for additional information.

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 $146.5 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 10: "Commitments and Contingencies" in the notes to our unaudited consolidated financial statements found 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, (a) it will 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) it will 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, it will 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” in this Form 10-Q for possible contingencies related to legal matters. See also Part I, Item 1 “Business — Government Regulation” of our 2016 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. See Note 3: Acquisitions and Divestitures in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q for additional information on recent acquisitions.

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 1.00% Notes, 1.625% Notes 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, short-term investments 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 six months ended June 30, 2017, we paid $121.7 million for capital expenditures, while during the six months ended July 1, 2016, we paid $124.9 million for capital expenditures. Our current minimum capital expenditure contractual commitment for the remainder of 2017 is approximately $88.5 million. Our current minimum contractual capital expenditure commitment for 2018 and thereafter is approximately $57.0 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.

On April 15, 2016, we entered into two new financing arrangements to secure funds for the purchase consideration of Fairchild among certain other items, including a $2.2 billion Term Loan “B” Facility, with the proceeds deposited into escrow accounts and used to finance the transaction, which occurred on September 19, 2016. On September 30, 2016, we amended the financing arrangements and increased the Term Loan “B” Facility by $200 million. On March 31, 2017, we amended the financing arrangements and reduced the interest rates payable under the Term Loan “B” Facility and the revolving credit facility. The associated interest expense related to our Term Loan “B” Facility has had, and will continue to have, a material impact to our results of operations throughout the term of the Amended Credit Agreement. 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.

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 $541.7 million and $219.1 million for the six months ended June 30, 2017 and July 1, 2016, respectively. The increase of $322.6 million was primarily attributable to better results of operations and the change in working capital during the period, as well as the acquisition of Fairchild. 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, cash equivalents and short-term investments, was $529.5 million at June 30, 2017 and has fluctuated between $668.2 million and $34.6 million at the end of each of our last eight fiscal quarters. Our working capital, including cash, cash equivalents and short-term investments, was $1,401.1 million at June 30, 2017 and has fluctuated between $1,401.1 million and $614.7 million at the end of each of our last eight 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 six months ended June 30, 2017, our working capital was most significantly impacted by our capital expenditures and our repayment of long-term debt, 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.

Long-Term Assets and Liabilities

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

Key Financing and Capital Events

Overview

For the past several years, we have undertaken measures to 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. For further information with respect to our debt instruments, see Note 7: “Long-Term Debt” in the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

On March 31, 2017, we and the Guarantors entered into the Second Amendment to the Credit Agreement, dated as of April 15, 2016, as amended by the First Amendment (the “First Amendment”) thereto, dated as of September 30, 2016. The Second Amendment provides for, among other things, modifications to the Credit Agreement to allow the Notes to rank pari passu with borrowings under the Credit Agreement and to reduce the interest rates payable under the term loan “B” facility (the “Term Loan “B” Facility”) and the revolving credit facility (the “Revolving Credit Facility”) .

On March 31, 2017, we completed the private unregistered offering of $575.0 million aggregate principal amount of the 1.625% Notes, which amount includes the full exercise of the initial purchasers’ option to purchase additional 1.625% Notes. The net proceeds from the offering of the 1.625% Notes were used to repay $562.1 million of borrowings outstanding under the Term Loan “B” Facility.

During the quarter ended June 30, 2017 we repaid $120.0 million outstanding under the Revolving Credit Facility.

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 June 30, 2017, 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 various 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 on distributor sales (see 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 2016 Form 10-K under the heading "Critical Accounting Policies and Estimates."

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 2: 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 June 30, 2017, our gross long-term debt (including current maturities) totaled $3,407.3 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $1,808.1 million as of June 30, 2017. We do have interest rate exposure with respect to the $1,599.2 million balance of our variable interest rate debt outstanding as of June 30, 2017. 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 twelve months by approximately $8.0 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 the risk of variability in cash flows resulting from future interest payments on our variable interest rate debt.

Except as described above, our exposure to market risk from December 31, 2016 to June 30, 2017 has not changed materially from the information provided in our 2016 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 United States Dollar as a normal part of the reporting process. Our Japanese operations 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 June 30, 2017 and December 31, 2016 was $125.9 million and $95.9 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 $44.9 million as of June 30, 2017, 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 June 30, 2017.

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 June 30, 2017 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We continue to integrate Fairchild’s operations into our systems and internal control environment, and expect to complete the integration by the fourth quarter of 2017.

Table of Contents

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 2016 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 disclosed in Part I, Item 1A of our Form 10-Q for the quarter ended March 31, 2017, there have been no material changes from the risk factors disclosed in Part I, Item 1A of our 2016 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); 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; legislative, regulatory and economic developments; 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 acquisitions and dispositions (including from integrating and consolidating and timely filing financial information with the SEC for acquired businesses and difficulties encountered in accurately predicting the future financial performance of acquired businesses); risks associated with our substantial leverage and restrictive covenants in our debt agreements that may be in place from time to time; risks associated with our worldwide operations, including foreign employment and labor matters associated with unions and collective bargaining arrangements, as well as man-made and/or natural disasters affecting our operations and finances/financials; the threat or occurrence of international armed conflict and terrorist activities both in the United States and internationally; risks and costs associated with increased and new regulation of corporate governance and disclosure standards; risks related to new legal requirements, including laws, rules and regulations related to taxes; risks involving environmental or other governmental regulation; and risks associated with our recent acquisition of Fairchild, including: (1) intellectual property litigation matters relating to Fairchild; (2) our ability to retain key personnel; (3) competitive responses to the transaction; (4) unexpected costs, charges or expenses resulting from the transaction; (5) adverse reactions or changes to business relationships resulting from the transaction; (6) our ability to realize the benefits of the acquisition of Fairchild; (7) delays, challenges and expenses associated with integrating the businesses; and (8) our ability to comply with the terms of the indebtedness incurred in connection with the transaction. Additional factors that could affect our future results or events are described under Part I, Item 1A "Risk Factors" in our 2016 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, our 2016 Form 10-K, Part I, Item 1A of our Form 10-Q for the quarter ended March 31, 2017 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. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information, except as may be required by law. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

[Table of Contents](#)

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

Share Repurchase Program

We did not repurchase any of our common stock under our share repurchase program during the quarter ended June 30, 2017.

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, 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 June 30, 2017, approximately $603.2 million remained of the total authorized amount to purchase 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 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*
3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, dated May 17, 2017(1)
10.1	Third Amendment to the ON Semiconductor Corporation Amended and Restated Stock Incentive Plan, dated May 17, 2017(1)(3)
10.2	Amendment to the ON Semiconductor Corporation 2000 Employee Stock Purchase Plan, dated May 17, 2017(1)(3)

10.3	Form of Performance Based Restricted Stock Units Award Agreement under the ON Semiconductor Corporation Amended and Restated Stock Incentive Plan (Senior Vice Presidents and Above)(1)(3)
10.4	Amended and Restated Employment Agreement for Keith Jackson, dated June 1, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2017)(3)
10.5	Amendment No. 1 to Employment Agreement with Bernard Gutmann, dated June 1, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2017)(3)
10.6	Amendment No. 2 to Employment Agreement with William M. Hall, dated June 1, 2017 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2017)(3)
10.7	Amendment No. 1 to Employment Agreement with William A. Schromm, dated June 1, 2017 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2017)(3)
10.8	Key Officer Severance and Change of Control Agreement with Mamoon Rashid, dated June 1, 2017 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2017)(3)
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)
32.1	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(2)
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) Furnished herewith.
(3) Management contract or compensatory plan, contract or arrangement.

[Table of Contents](#)

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: August 7, 2017

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)

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit Description*
3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, dated May 17, 2017(1)
10.1	Third Amendment to the ON Semiconductor Corporation Amended and Restated Stock Incentive Plan, dated May 17, 2017(1)(3)
10.2	Amendment to the ON Semiconductor Corporation 2000 Employee Stock Purchase Plan, dated May 17, 2017(1)(3)
10.3	Form of Performance Based Restricted Stock Units Award Agreement under the ON Semiconductor Corporation Amended and Restated Stock Incentive Plan (Senior Vice Presidents and Above)(1)(3)
10.4	Amended and Restated Employment Agreement for Keith Jackson, dated June 1, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2017)(3)
10.5	Amendment No. 1 to Employment Agreement with Bernard Gutmann, dated June 1, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on June 2, 2017)(3)
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* 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) Furnished herewith.
(3) Management contract or compensatory plan, contract or arrangement.

Exhibit 3.1

CERTIFICATE OF AMENDMENT
TO THE
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
ON SEMICONDUCTOR CORPORATION

ON Semiconductor Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify as follows:

1. The Amended and Restated Certificate of Incorporation of the Corporation is hereby amended by changing Section (1) of the Article "FOURTH" so that, as amended, said Section of said Article shall be and read as follows:

> "FOURTH: (1) The aggregate number of shares which the Corporation shall have authority to issue is 1,250,100,000 of which 100,000 of said shares shall be par value $0.01 and shall be designated Preferred Stock, and 1,250,000,000 of said shares shall be par value $0.01 per share and shall be designated Common Stock."

2. That the foregoing amendment to the Amended and Restated Certificate of Incorporation of the Corporation was duly adopted and approved in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

3. By amending Section (2) of the Article numbered "NINTH" so that, as amended, Section (2) of the Article "NINTH" shall be and read in its entirety as follows:

"NINTH:

…

(2) Subject to the rights of the holders of any one or more classes or series of Preferred Stock issued by the Corporation, any director, or the entire Board, may be removed from office at any time, with or without cause, by the affirmative vote of the holders of a majority of the shares then entitled to vote at an election of directors. Any vacancy in the Board that results from an increase in the number of directors may be filled by a majority of the directors then in office, provided that a quorum is present, and any other vacancy may be filled only by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall hold office for the remaining term of his or her predecessor."

4. That the foregoing proposed amendment to the Amended and Restated Certificate of Incorporation of the Corporation was duly adopted and approved in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware by approval of the Board of Directors and by the affirmative vote of stockholders of the Corporation representing not less than sixty-six and two thirds percent (66 2/3%) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote, considered for purposes of this vote as a single class.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation to be signed by its Executive Vice President, Chief Financial Officer, and Treasurer and attested by its Executive Vice President, General Counsel, and Secretary, who declare under penalty of perjury that the matters set forth in the foregoing Certificate of Amendment are true and correct to their knowledge, this 17th day of May, 2017.

ON SEMICONDUCTOR CORPORATION

By: /s/ BERNARD GUTMANN
Name: Bernard Gutmann
Title: Executive Vice President, Chief Financial Officer and Treasurer

Attest:

By: /s/ GEORGE H. CAVE
Name: George H. Cave
Title: Executive Vice President, General Counsel, Chief Compliance & Ethics Officer, Chief Risk Officer and Corporate Secretary

Exhibit 10.1

THIRD AMENDMENT TO THE
ON SEMICONDUCTOR CORPORATION
AMENDED AND RESTATED
STOCK INCENTIVE PLAN

ON Semiconductor Corporation, a Delaware corporation (the "Company"), previously established the ON Semiconductor Corporation 2000 Stock Incentive Plan, which was most recently amended and restated in its entirety effective as of March 23, 2010 by the adoption of the ON Semiconductor Corporation Amended and Restated Stock Incentive Plan (the "Plan"). The Plan was approved by the Company's shareholders at the Company's 2010 Annual Meeting. At the Company's 2012 Annual Meeting the Company's shareholders approved the First Amendment to the Plan, which increased the total number of shares of stock available for grant under the Plan by 33,000,000. At the Company's 2015 Annual Meeting the Company's shareholders approved the Second Amendment to the Plan, which imposed a sublimit on the number of shares that may be granted to non-employee directors during any one calendar year and made certain changes to the list of performance criteria set forth in Section 2.1(bb) of the Plan. By adoption of this Third Amendment, the Company now desires to amend the Plan as set forth below.

1. This Third Amendment shall be effective as of the date on which it is approved by the Company's shareholders at the Company's 2017 Annual Meeting.

2. Section 1.4 (Establishment, Purpose, Effective Date, and Expiration Date – Expiration Date) of the Plan is hereby amended and restated in its entirety to read as follows:

> 1.4 ***Expiration Date***. The Plan was originally scheduled to expire on March 23, 2020. Pursuant to the Third Amendment to the Plan, which was approved by the shareholders at the 2017 Annual Meeting, the Plan will expire on, and no Award may be granted under the Plan after, the date of the Company's 2022 Annual Meeting. Any Awards that are outstanding on the date of the Company's 2022 Annual Meeting shall remain in force according to the terms of the Plan and the Award Agreement.

3. Section 2.1(dd) (Definitions – Performance Period) of the Plan is hereby amended and restated in its entirety to read as follows:

(dd) **"Performance Period"** means one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured. Except as set forth in Sections 7.4(c) and 8.5(c), in no event will the Performance Period for any Option, Restricted Stock Unit, Restricted Stock, Performance Share, Performance Share Unit, or Stock Appreciation Rights Award that vests based on the achievement of Performance Goals be less than twelve (12) months.

4. The first sentence of Section 5.1 (Stock Subject to the Plan – Number of Shares) of the Plan is hereby amended and restated in its entirety to read as follows:

5.1 ***Number of Shares***. Subject to Section 5.2 and 5.3, the total number of shares of Stock subject to all Awards under the Plan shall be Eighty-Seven Million (87,000,000), plus the number of shares of Stock subject to Awards that were previously granted pursuant to the 2000 Plan that again become available for the grant of an Award pursuant to Section 5.2 after February 17, 2010, less the number of shares of Stock subject to outstanding Awards made under the Plan since March 23, 2010 that have not terminated, expired, lapsed or been paid in cash.

5. Section 6.1 (Stock Options – Grant of Options) of the Plan is hereby amended by adding the following new Section 6.1(f) (Grant of Options – Vesting Period) to the end thereof to read as follows:

(f) ***Vesting Period***. In no event will the vesting period for any Option be less than twelve (12) months.

6. Section 7.2 (Restricted Stock Units and Restricted Stock – Restricted Stock Units) of the Plan is hereby amended by adding the following new Section 7.2(c) (Restricted Stock Units – Dividend Equivalents) to the end thereof to read as follows:

(c) ***Dividend Equivalents***. If the Committee grants dividend equivalents with respect to any Restricted Stock Unit Award that vests based on the achievement of Performance Goals, no dividend equivalents will be paid unless and until such Restricted Stock Unit Award vests or is earned by satisfaction of the applicable Performance Goals.

7. Section 7.4(c) (Restricted Period and Vesting Conditions – De Minimis Exception) of the Plan is hereby amended and restated in its entirety to read as follows:

(c) ***De Minimis Exception***. The sum of the shares of Stock subject to any (i) Restricted Stock or Restricted Stock Unit Award that does not comply with the requirements of Section 7.4(a); (ii) Performance Share or Performance Share Unit Award that does not comply with the requirements of Section 8.5(a); and (iii) Stock Grant Award may not exceed five percent (5%) of the total number of shares of Stock subject to all Awards under the Plan, as set forth in Section 5.1.

8. Section 8.5(c) (Vesting Conditions for Performance Shares and Performance Share Units – De Minimis Exception) of the Plan is hereby amended and restated in its entirety to read as follows:

(c) ***De Minimis Exception***. The sum of the shares of Stock subject to any (i) Performance Share or Performance Share Unit Award that does not comply with the requirements of Section 8.5(a); (ii) Restricted Stock or Restricted Stock Unit Award that does not comply with the requirements of Section 7.4(a); and (iii) Stock Grant Award may not exceed five percent (5%) of the total number of shares of Stock subject to all Awards under the Plan, as set forth in Section 5.1.

9. Section 8.5 (Performance Shares, Performance Share Units and Performance Cash Awards – Vesting Conditions for Performance Shares and Performance Share Units) of the Plan is hereby amended by adding the following new Section 8.5(d) (Vesting Conditions for Performance Shares and Performance Share Units – Dividend Equivalents) to the end thereof to read as follows:

(d) ***Dividend Equivalents***. If the Committee grants dividend equivalents with respect to any Performance Share or Performance Share Unit Award that vests based on the achievement of Performance Goals, no dividend equivalents will be paid unless and until such Performance Share or Performance Share Unit Award vests or is earned by satisfaction of the applicable Performance Goals.

10. Article 9 (Stock Appreciation Rights) of the Plan is hereby amended by adding the following new Sections 9.5 (Stock Appreciation Rights – No Repricing of SARs) and 9.6 (Stock Appreciation Rights – Vesting Period) to the end thereof to read as follows:

> 9.5 ***No Repricing of SARs***. The Committee shall not reprice any SARs previously granted under the Plan.
>
> 9.6 ***Vesting Period***. In no event will the vesting period for any SARs be less than twelve (12) months.

11. The last sentence of Article 10 (Stock Grant Awards) of the Plan is hereby amended and restated in its entirety to read as follows:

> The sum of the shares of Stock subject to any (i) Stock Grant Award; (ii) Restricted Stock or Restricted Stock Unit Award that does not comply with the requirements of Section 7.4(a); and (iii) Performance Share or Performance Share Unit Award that does not comply with the requirements of Section 8.5(a) may not exceed five percent (5%) of the total number of shares of Stock subject to all Awards under the Plan, as set forth in Section 5.1.

12. Clause (e) of Section 11.5 (Performance Compensation Awards – Performance Evaluation; Adjustment of Goals) of the Plan is hereby amended and restated in its entirety to read as follows:

> (e) Items that are unusual in nature or infrequently occurring as described in Accounting Standards Update 2015-01 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders or Annual Report on Form 10-K, as the case may be, for the applicable year;

13. The second to last sentence of Article 16 (Amendment, Modification and Termination) of the Plan is hereby amended and restated in its entirety to read as follows:

> Except as provided in Section 5.3, neither the Board, the CEO nor the Committee may, without the approval of the shareholders, (a) reduce the purchase price or exercise price of any outstanding Award, including any Option or SAR; (b) increase the number of shares available under the Plan (other than any adjustment as provided in Section 5.3); (c) grant Options with an exercise price that is below Fair Market Value on the Grant Date; (d) reprice previously granted Options or SARs; (e) cancel any Option or SAR in exchange for cash or any other Award or in exchange for any Option or SAR with an exercise price that is less than the exercise price of the original Option or SAR; (f) expand the class of Participants eligible to receive an Award under the Plan; or (g) expand the types of Awards available for grant under the Plan.

14. Section 17.1 (Tax Withholding – Tax Withholding) of the Plan is hereby amended and restated in its entirety to read as follows:

17.1 ***Tax Withholding.*** The Company shall have the power to withhold, or require a Participant to remit to the Company, up to the maximum amount necessary to satisfy federal, state, and local withholding tax requirements on any Award under the Plan. To the extent that alternative methods of withholding are available under applicable tax laws, the Company shall have the power to choose among such methods.

15. This Third Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions and intent of this Third Amendment.

IN WITNESS WHEREOF, the Company has caused this Third Amendment to be executed as of this 17th day of May, 2017.

ON SEMICONDUCTOR CORPORATION

By: /s/ MARK N. ROGERS
Mark N. Rogers
Its: Assistant Secretary

Exhibit 10.2

**AMENDMENT TO THE
ON SEMICONDUCTOR CORPORATION
2000 EMPLOYEE STOCK PURCHASE PLAN**

ON Semiconductor Corporation, formerly SCG Holding Corporation (the "Company"), previously approved and adopted the SCG Holding Corporation 2000 Stock Purchase Plan (the "Plan"). The Plan has been amended on a number of occasions. By this instrument, the Company desires to amend the Plan to increase the number of shares available for purchase under the Plan from its existing 23,500,000 shares to 28,500,000 shares.

1. The provisions of this Amendment shall be effective as of the date approved by the Company's shareholders.

2. Section 4 (<u>Stock Subject to Plan</u>) of the Plan is hereby amended by deleting the first sentence and replacing it with the following language:

> Subject to adjustment as provided below, the total number of shares of Stock reserved and available for issuance or which may be otherwise acquired upon exercise of Purchase Rights under the Plan will be 28,500,000.

3. This Amendment shall amend only the provisions of the Plan as set forth herein. Those provisions of the Plan not expressly amended hereby shall be considered in full force and effect.

IN WITNESS WHEREOF, ON Semiconductor Corporation has caused this Amendment to be executed as of this 17th day of May, 2017.

ON SEMICONDUCTOR CORPORATION

By: /s MARK N. ROGERS
Mark N. Rogers
Its: Senior Vice President, Assistant General Counsel, Assistant Compliance and Ethics Officer and Assistant Corporate Secretary

[2017 Form of Performance-Based Award for Senior Vice Presidents and Above and Certain others (With Performance Multiplier)]

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 ("Award Agreement" or "Grant Agreement") is made effective as of the 6th day of March, 2017 ("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 Award 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. **Grant of Units**. 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 Award 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, 2017 ("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	$ 1,525	100%
Threshold or Below	$ 1,220	0%

If the Company's Adjusted Non-GAAP EBITDA for the Performance Measurement Period is equal to or less than the Threshold performance level ($1,220 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 ($1,220 million), but is less than the Target performance level ($1,525 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 ($1,220 million) and Target performance level ($1,525 million). If the Company's Adjusted Non-GAAP EBITDA for the Performance Measurement Period equals or exceeds the Target performance level ($1,525 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 2018. 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 the purposes of this Agreement "Adjusted Non-GAAP EBITDA" shall mean the Company's consolidated earnings, before interest (income or expense), taxes, depreciation and amortization (or "EBITDA") for the Performance Measurement Period, calculated taking into account any timely adjustments made 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 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 Adjusted Non-GAAP EBITDA Performance Goal. If applicable to the Company for purposes of calculating Non-GAAP EBITDA for the Performance Measurement Period, the Company, or Committee if the Grantee is a Covered Employee, shall adjust Non-GAAP EBITDA to exclude the following: (i) impact for the conversion of accounting firm Sell-Through to Sell-In as measured in the quarter the conversion occurs; (ii) restructuring, asset impairments and other, net; (iii) goodwill and intangible asset impairment; (iv) interest expense and interest income; (v) income tax provision; (vi) acquisition related costs; (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 acquisitions and divestitures; (xi) gain or loss on debt repurchase, debt exchange, early extinguishment of debt, etc.; (xii) expensing of inventory fair market value step up; and (xiii) 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, Non-GAAP EBITDA, as adjusted, 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 ($1,525 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. The applicable Performance Multiplier shall be determined based on the achievement of the Performance Goals described in the table below.

PERFORMANCE MULTIPLIER GOALS

Performance Multiplier Goal	Threshold	Stretch	Threshold Performance Multiplier	Stretch Performance Multiplier
Market Share	7.024% of Comparator Group Market Share	7.340% of Comparator Group Market Share	100%	150%
Free Cash Flow	$ 550M	$ 650M	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 (7.024% 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 (7.024% of Comparator Group Market Share), but is less than the Stretch Market Share (7.340% 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 (7.340% 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 ($550 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 ($550 million) but is less than the Stretch Free Cash Flow ($650 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 ($650 million), the Performance Multiplier shall be 150%. 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 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 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, 2018 (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 2018; 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 900 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 900 Units will be forfeited on the date the Company files its Form 10-Q for Q2 of fiscal year 2018.

- 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., $1,372.5 million of Adjusted Non-GAAP EBITDA), 450 Units will be earned at the end of the Performance Measurement Period. The remaining 450 Units will be forfeited on the date the Company files its Form 10-Q for Q2 of fiscal year 2018. The 450 earned Units will then vest as follows: (i) 225 Units will vest on the date the Company files its Form 10-Q for Q2 of fiscal year 2018; and (ii) 225 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., $1,525 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, 900 Units will be earned at the end of the Performance Measurement Period but **no** Performance Multiplier shall apply. The 900 earned Units will then vest as follows: (i) 450 Units will vest on the date the Company files its Form 10-Q for Q2 of fiscal year 2018; and (ii) 450 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., $1,525 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, 900 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 1,350 Total Earned Units (900 x 1.5). The 1,350 Total Earned Units will then vest as follows: (i) 675 Units will vest on the date the Company files its Form 10-Q for Q2 of fiscal year 2018; and (ii) 675 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 Change in Control On or After End of Performance Measurement Period. 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 10,000 Units.

- If (i) a Change in Control occurs on September 30, 2017 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 15,000. If you are terminated without Cause (or terminate for Good Reason) on September 30, 2017, 7,500 Units will vest as of the date of your termination of employment. If, however, your termination without Cause (or termination for Good Reason) occurs on or after the last day of Q2 of fiscal year 2018, 15,000 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 2018 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 15,000. 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 15,000 Units (to the extent unvested) will vest as of the date of your termination of employment.

5. Time and Form of Payment. Subject to the provisions of this Award 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. 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.

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 Award 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 Award 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 or any other applicable federal or state securities laws or regulations; (iv) the Grantee has complied with Section 14 below of this Award 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 5, 2018); 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 of 1933 or any other applicable federal or state 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 Award 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 Award 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**. 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, 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 Grantee acknowledges that 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 unless otherwise 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, the Grantee authorizes the Company and/or the Employer, or their respective agents, at the Company's discretion, 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.

The Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. 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 Award 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 Award 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. Nothing in this Section 22 shall be construed to limit, impede, or impair the right or obligation of the Grantee to report any illegal, improper, or other inappropriate conduct to any government agency regarding matters that are within the jurisdiction of such agency.

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, which 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. Grantee agrees to fully cooperate with the Company in assuring compliance with such policies and the provisions of applicable law, including, but not limited to, promptly returning any compensation subject to recovery by the Company pursuant to 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.

ON SEMICONDUCTOR CORPORATION

By: ______________________________

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

GRANTEE

By: ______________________________

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 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: August 7, 2017

/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 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: August 7, 2017

/s/ BERNARD GUTMANN
Bernard Gutmann
Chief Financial Officer

Exhibit 32.1

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 June 30, 2017 (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: August 7, 2017	/s/ KEITH D. JACKSON Keith D. Jackson President and Chief Executive Officer
Dated: August 7, 2017	/s/ BERNARD GUTMANN Bernard Gutmann Executive Vice President, Chief Financial Officer and Treasurer