

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Quarter Ended			Nine Months Ended	
	September 29, 2017	June 30, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Revenue	\$ 1,390.9	\$ 1,338.0	\$ 950.9	\$ 4,165.6	\$ 2,645.9
Cost of revenue (exclusive of amortization shown below)	866.7	845.9	621.9	2,646.0	1,733.5
Gross profit	524.2	492.1	329.0	1,519.6	912.4
Gross margin	37.7%	36.8%	34.6%	36.5%	34.5%
Operating expenses:					
Research and development	150.9	145.5	111.5	436.4	312.5
Selling and marketing	78.6	79.5	56.7	235.6	158.6
General and administrative	68.9	76.6	67.6	213.9	158.1
Amortization of acquisition-related intangible assets	37.3	28.6	24.7	95.0	71.9
Restructuring, asset impairments and other, net	9.7	5.9	21.8	16.1	28.7
Intangible asset impairment	1.5	1.8	—	7.7	2.2
Total operating expenses	346.9	337.9	282.3	1,004.7	732.0
Operating income	177.3	154.2	46.7	514.9	180.4
Other (expense) income, net:					
Interest expense	(34.9)	(34.7)	(46.7)	(108.0)	(104.4)
Interest income	0.7	0.5	1.4	1.8	3.8
Gain on divestiture of business	12.5	—	92.2	12.5	92.2
Licensing income	21.5	23.9	—	45.4	—
Loss on debt refinancing and prepayment	(6.7)	—	(6.3)	(32.9)	(6.3)
Other expense	(2.1)	(0.7)	—	(7.2)	(3.3)
Other (expense) income, net	(9.0)	(11.0)	40.6	(88.4)	(18.0)
Income before income taxes	168.3	143.2	87.3	426.5	162.4
Income tax provision	(59.4)	(48.8)	(76.7)	(144.5)	(89.6)
Net income	108.9	94.4	10.6	282.0	72.8
Less: Net income attributable to non- controlling interest	(0.2)	(0.5)	(0.5)	(1.2)	(1.6)
Net income attributable to ON Semiconductor Corporation	\$ 108.7	\$ 93.9	\$ 10.1	\$ 280.8	\$ 71.2
Net income per common share attributable to ON Semiconductor Corporation:					
Basic	\$ 0.26	\$ 0.22	\$ 0.02	\$ 0.67	\$ 0.17
Diluted	\$ 0.25	\$ 0.22	\$ 0.02	\$ 0.66	\$ 0.17
Weighted average common shares outstanding:					
Basic	422.2	420.8	415.8	421.0	414.4
Diluted	427.5	425.9	419.8	426.5	417.6

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

(in millions)

	As of		
	September 29, 2017	June 30, 2017	December 31, 2016
Assets			
Cash and cash equivalents	\$ 901.2	\$ 871.6	\$ 1,028.1
Receivables, net	695.6	696.4	629.8
Inventories	1,029.0	1,002.0	1,030.2
Other current assets	189.6	194.3	181.0
Total current assets	2,815.4	2,764.3	2,869.1
Property, plant and equipment, net	2,238.2	2,215.0	2,159.1
Goodwill	916.9	924.7	924.7
Intangible assets, net	662.5	708.6	762.1
Deferred tax assets	148.8	148.4	138.9
Other assets	79.5	73.3	70.5
Total assets	<u>\$ 6,861.3</u>	<u>\$ 6,834.3</u>	<u>\$ 6,924.4</u>
Liabilities, Non-Controlling Interest and Stockholders' Equity			
Accounts payable	\$ 590.3	\$ 546.3	\$ 434.0
Accrued expenses	580.5	548.7	405.0
Deferred income on sales to distributors	—	—	109.8
Current portion of long-term debt	258.5	268.2	553.8
Total current liabilities	1,429.3	1,363.2	1,502.6
Long-term debt	2,684.4	2,872.3	3,068.5
Deferred tax liabilities	309.1	271.3	288.9
Other long-term liabilities	203.1	208.2	186.5
Total liabilities	<u>4,625.9</u>	<u>4,715.0</u>	<u>5,046.5</u>
2.625% Notes, Series B - Redeemable conversion feature	—	—	32.9
ON Semiconductor Corporation stockholders' equity:			
Common stock	5.5	5.5	5.4
Additional paid-in capital	3,557.1	3,538.5	3,473.3
Accumulated other comprehensive loss	(43.8)	(43.8)	(50.2)
Accumulated deficit	(178.4)	(287.1)	(527.3)
Less: Treasury stock, at cost	(1,128.0)	(1,116.6)	(1,078.0)
Total ON Semiconductor Corporation stockholders' equity	2,212.4	2,096.5	1,823.2
Non-controlling interest in consolidated subsidiary	23.0	22.8	21.8
Total stockholders' equity	<u>2,235.4</u>	<u>2,119.3</u>	<u>1,845.0</u>
Total liabilities and equity	<u>\$ 6,861.3</u>	<u>\$ 6,834.3</u>	<u>\$ 6,924.4</u>

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA AND
NET CASH PROVIDED BY OPERATING ACTIVITIES

	(in millions)				
	Quarter Ended			Nine Months Ended	
	September 29, 2017	June 30, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Net income	\$ 108.9	\$ 94.4	\$ 10.6	\$ 282.0	\$ 72.8
Adjusted for:					
Licensing income	(21.5)	(23.9)	—	(45.4)	—
R&D costs related to licensing income	2.2	4.1	—	6.3	—
Restructuring, asset impairments and other, net	9.7	5.9	21.8	16.1	28.7
Intangible asset impairment	1.5	1.8	—	7.7	2.2
Interest expense	34.9	34.7	46.7	108.0	104.4
Interest income	(0.7)	(0.5)	(1.4)	(1.8)	(3.8)
Loss on debt refinancing and prepayment	6.7	—	6.3	32.9	6.3
Income tax provision	59.4	48.8	76.7	144.5	89.6
Net income attributable to non-controlling interest	(0.2)	(0.5)	(0.5)	(1.2)	(1.6)
Depreciation and amortization	127.7	116.5	83.8	358.5	244.1
Amortization of fair market value step-up of inventory	2.5	1.3	11.9	13.6	11.9
Sell-through to sell-in adjustment	—	—	—	(59.0)	—
Gain on divestiture of business	(12.5)	—	(92.2)	(12.5)	(92.2)
Adjustment to contingent consideration	(0.3)	0.8	(1.3)	2.0	(1.3)
Third party acquisition and divestiture related costs	0.5	0.7	17.8	2.2	22.3
Adjusted EBITDA	318.8	284.1	180.2	853.9	483.4
Increase (decrease):					
Licensing income	21.5	23.9	—	45.4	—
R&D costs related to licensing income	(2.2)	(4.1)	—	(6.3)	—
Restructuring, asset impairments and other, net	(9.7)	(5.9)	(21.8)	(16.1)	(28.7)
Interest expense	(34.9)	(34.7)	(46.7)	(108.0)	(104.4)
Interest income	0.7	0.5	1.4	1.8	3.8
Income tax provision	(59.4)	(48.8)	(76.7)	(144.5)	(89.6)
Net income attributable to non-controlling interest	0.2	0.5	0.5	1.2	1.6
Amortization of fair market value step-up of inventory	(2.5)	(1.3)	(11.9)	(13.6)	(11.9)
Third party acquisition and divestiture related costs	(0.5)	(0.7)	(17.8)	(2.2)	(22.3)
Sell-through to sell-in adjustment	—	—	—	59.0	—
Loss (gain) on sale or disposal of fixed assets	1.0	(1.1)	0.4	2.8	0.6
Amortization of debt discount and issuance costs	3.8	3.9	3.4	12.2	7.4

Non-cash asset impairment charges	6.4	—	—	7.3	—
Write-down of excess inventories	21.2	21.4	4.4	56.8	40.1
Adjustment to contingent consideration	0.3	(0.8)	—	(2.0)	—
Payments for term debt modification	—	—	(26.4)	(2.4)	(26.4)
Non-cash share-based compensation expense	16.8	20.8	14.2	52.7	41.9
Non-cash interest on convertible notes	8.6	8.6	6.6	21.9	19.6
Change in deferred taxes	38.9	21.0	62.3	96.1	65.5
Other	0.6	0.5	2.0	2.6	(1.4)
Changes in operating assets and liabilities	(1.4)	45.4	58.6	(48.7)	(27.4)
Net cash provided by operating activities	\$ 328.2	\$ 333.2	\$ 132.7	\$ 869.9	\$ 351.8
Cash flows from investing activities:					
Purchases of property, plant and equipment	\$ (90.1)	\$ (69.0)	\$ (35.9)	\$ (211.8)	\$ (160.8)
Proceeds from divestiture of business, net of cash transferred	20.0	—	104.0	20.0	104.0
Proceeds from sales of property, plant and equipment	0.3	1.6	—	2.1	0.4
Deposits (made) utilized for purchases of property, plant and equipment	(3.2)	1.3	(1.3)	(2.1)	0.9
Purchase of business, net of cash acquired	—	—	(2,277.2)	(0.8)	(2,277.2)
Cash received from escrow	—	—	23.8	—	23.8
Purchases of held-to-maturity securities	—	—	—	(1.6)	—
Cash placed in escrow	—	—	—	—	(67.7)
Other	—	0.3	0.8	0.3	1.8
Net cash used in investing activities	\$ (73.0)	\$ (65.8)	\$ (2,185.8)	\$ (193.9)	\$ (2,374.8)
Cash flows from financing activities:					
Proceeds from issuance of common stock under the employee stock purchase plan	\$ 0.1	\$ 5.4	\$ 3.9	\$ 11.4	\$ 10.9
Proceeds from exercise of stock options	1.7	1.7	2.9	10.9	5.1
Payments of tax withholding for restricted shares	(11.4)	(0.6)	(2.2)	(25.0)	(10.4)
Repurchase of common stock	—	—	—	(25.0)	—
Proceeds from debt issuance	5.3	6.9	2,572.4	701.2	2,581.9
Purchase of convertible note hedges	—	—	—	(144.7)	—
Proceeds from issuance of warrants	—	—	—	85.2	—
Payments of debt issuance and other financing costs	—	—	(3.4)	—	(6.5)
Repayment of long-term debt	(220.3)	(136.9)	(223.6)	(1,411.6)	(287.6)
Payment of capital lease obligations	(1.2)	(1.1)	(2.8)	(7.7)	(12.2)
Dividend to non-controlling shareholder of consolidated subsidiary	—	—	(1.9)	—	(1.9)
Net cash provided by (used in) financing activities	\$ (225.8)	\$ (124.6)	\$ 2,345.3	\$ (805.3)	\$ 2,279.3
Effect of exchange rate changes on cash and cash equivalents	\$ 0.2	\$ (0.1)	\$ 0.2	\$ 2.4	\$ 6.6
Net increase (decrease) in cash and cash equivalents	\$ 29.6	\$ 142.7	\$ 292.4	\$ (126.9)	\$ 262.9

Cash and cash equivalents, beginning of period	<u>\$ 871.6</u>	<u>\$ 728.9</u>	<u>\$ 588.1</u>	<u>\$ 1,028.1</u>	<u>\$ 617.6</u>
Cash and cash equivalents, end of period	<u>\$ 901.2</u>	<u>\$ 871.6</u>	<u>\$ 880.5</u>	<u>\$ 901.2</u>	<u>\$ 880.5</u>

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

ANALYSIS OF GAAP VERSUS NON-GAAP DISCLOSURES

(in millions, except per share and percentage data)

	Quarter Ended			Nine Months Ended	
	September 29, 2017	June 30, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Reconciliation of GAAP revenue to non-GAAP revenue:					
GAAP revenue	\$ 1,390.9	\$ 1,338.0	\$ 950.9	\$ 4,165.6	\$ 2,645.9
Special items:					
a) Sell-through to sell-in adjustment	—	—	—	(155.1)	—
Total special items	—	—	—	(155.1)	—
Non-GAAP revenue	<u>\$ 1,390.9</u>	<u>\$ 1,338.0</u>	<u>\$ 950.9</u>	<u>\$ 4,010.5</u>	<u>\$ 2,645.9</u>
Reconciliation of GAAP gross profit to non-GAAP gross profit:					
GAAP gross profit	\$ 524.2	\$ 492.1	\$ 329.0	\$ 1,519.6	\$ 912.4
Special items:					
a) Expensing of appraised inventory at fair market value step up	2.5	1.3	11.9	13.6	11.9
b) Sell-through to sell-in adjustment	—	—	—	(59.0)	—
Total special items	2.5	1.3	11.9	(45.4)	11.9
Non-GAAP gross profit	<u>\$ 526.7</u>	<u>\$ 493.4</u>	<u>\$ 340.9</u>	<u>\$ 1,474.2</u>	<u>\$ 924.3</u>
Reconciliation of GAAP gross margin to non-GAAP gross margin:					
GAAP gross margin	<u>37.7%</u>	<u>36.8%</u>	<u>34.6%</u>	<u>36.5 %</u>	<u>34.5%</u>
Special items:					
a) Expensing of appraised inventory at fair market value step up	0.2%	0.1%	1.3%	0.3 %	0.4%
b) Sell-through to sell-in adjustment	—%	—%	—%	(1.5)%	—%
Total special items	0.2%	0.1%	1.3%	(1.1)%	0.4%
Non-GAAP gross margin	<u>37.9%</u>	<u>36.9%</u>	<u>35.9%</u>	<u>35.4 %</u>	<u>34.9%</u>
Reconciliation of GAAP operating expenses to non-GAAP operating					
GAAP operating expenses	\$ 346.9	\$ 337.9	\$ 282.3	\$ 1,004.7	\$ 732.0
Special items:					
a) Amortization of acquisition related intangible assets	(37.3)	(28.6)	(24.7)	(95.0)	(71.9)
b) Restructuring, asset impairments and other, net	(9.7)	(5.9)	(21.8)	(16.1)	(28.7)
c) Intangible asset impairments	(1.5)	(1.8)	—	(7.7)	(2.2)
d) Third party acquisition and divestiture related costs	(0.5)	(0.7)	(17.8)	(2.2)	(22.3)

e) R&D Costs related to licensing income	(2.2)	(4.1)	—	(6.3)	—
Total special items	(51.2)	(41.1)	(64.3)	(127.3)	(125.1)
Non-GAAP operating expenses	\$ 295.7	\$ 296.8	\$ 218.0	\$ 877.4	\$ 606.9

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

GAAP operating income	\$ 177.3	\$ 154.2	\$ 46.7	\$ 514.9	\$ 180.4
Special items:					
a) Expensing of appraised inventory at fair market value step up	2.5	1.3	11.9	13.6	11.9
b) Sell-through to sell-in adjustment	—	—	—	(59.0)	—
c) Amortization of acquisition related intangible assets	37.3	28.6	24.7	95.0	71.9
d) Restructuring, asset impairments and other, net	9.7	5.9	21.8	16.1	28.7
e) Intangible asset impairments	1.5	1.8	—	7.7	2.2
f) Third party acquisition and divestiture related costs	0.5	0.7	17.8	2.2	22.3
g) R&D Costs related to licensing income	2.2	4.1	—	6.3	—
Total special items	53.7	42.4	76.2	81.9	137.0
Non-GAAP operating income	\$ 231.0	\$ 196.6	\$ 122.9	\$ 596.8	\$ 317.4

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

GAAP operating margin	12.7%	11.5%	4.9%	12.4 %	6.8%
Special items:					
a) Expensing of appraised inventory at fair market value step up	0.2%	0.1%	1.3%	0.3 %	0.4%
b) Sell-through to sell-in adjustment	—%	—%	—%	(1.5)%	—%
c) Amortization of acquisition related intangible assets	2.7%	2.1%	2.6%	2.3 %	2.7%
d) Restructuring, asset impairments and other, net	0.7%	0.4%	2.3%	0.4 %	1.1%
e) Intangible asset impairments	0.1%	0.1%	—%	0.2 %	0.1%
f) Third party acquisition and divestiture related costs	—%	0.1%	1.9%	0.1 %	0.8%
g) R&D Costs related to licensing income	0.2%	0.3%	—%	0.2 %	—%
Total special items	3.9%	3.2%	8.0%	1.9 %	5.2%
Non-GAAP operating margin	16.6%	14.7%	12.9%	14.3 %	12.0%

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

GAAP income before income taxes	\$ 168.3	\$ 143.2	\$ 87.3	\$ 426.5	\$ 162.4
Special items:					
a) Expensing of appraised inventory at fair market value	2.5	1.3	11.9	13.6	11.9
b) Sell-through to sell-in adjustment	—	—	—	(59.0)	—
c) Amortization of acquisition related intangible assets	37.3	28.6	24.7	95.0	71.9
d) Restructuring, asset impairments and other, net	9.7	5.9	21.8	16.1	28.7
e) Intangible asset impairments	1.5	1.8	—	7.7	2.2
f) Third party acquisition and divestiture related costs	0.5	0.7	17.8	2.2	22.3
g) R&D Costs related to licensing income	2.2	4.1	—	6.3	—
h) Loss on debt refinancing and prepayment	6.7	—	6.3	32.9	6.3
i) Non-cash interest on convertible notes	8.6	8.6	6.6	21.9	19.6
j) Pre-acquisition interest expense, net	—	—	24.4	—	48.3
k) Adjustment to contingent consideration	(0.3)	0.8	(1.3)	2.0	(1.3)
l) Licensing income	(21.5)	(23.9)	—	(45.4)	—
m) Gain on divestiture of business	(12.5)	—	(92.2)	(12.5)	(92.2)
Total special items	34.7	27.9	20.0	80.8	117.7
Non-GAAP income before income taxes	\$ 203.0	\$ 171.1	\$ 107.3	\$ 507.3	\$ 280.1
Reconciliation of Net cash provided by operating activities to free cash flow:					
Net cash provided by operating activities	\$ 328.2	\$ 333.2	\$ 132.7	\$ 869.9	\$ 351.8
Special items:					
a) Purchases of property, plant and equipment	(90.1)	(69.0)	(35.9)	(211.8)	(160.8)
Total special items	(90.1)	(69.0)	(35.9)	(211.8)	(160.8)
Free cash flow	\$ 238.1	\$ 264.2	\$ 96.8	\$ 658.1	\$ 191.0

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

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

	Quarter Ended			Nine Months Ended	
	September 29, 2017	June 30, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Cost of revenue	\$ 1.4	\$ 1.5	\$ 2.0	\$ 4.4	\$ 6.0
Research and development	3.2	3.5	2.9	9.6	8.3
Selling and marketing	2.8	3.2	2.6	8.8	7.2
General and administrative	9.4	12.6	6.7	29.9	20.4
Total share-based compensation expense	\$ 16.8	\$ 20.8	\$ 14.2	\$ 52.7	\$ 41.9

Non-GAAP Measures

To supplement the consolidated financial results prepared in accordance with GAAP, ON Semiconductor uses non-GAAP measures, which are adjusted from the most directly comparable GAAP results to exclude items related to the amortization of intangible assets, amortization of acquisition-related intangibles, expensing of appraised inventory fair market value step-up, inventory valuation adjustments, purchased in-process research and development expenses, restructuring, asset impairments and other, net, goodwill impairment charges, gains and losses on debt prepayment, non-cash interest expense, actuarial (gains) losses on pension plans and other pension benefits, third party acquisition and divestiture related costs and certain other non-recurring items, as necessary. Management does not consider the effects of these items in evaluating the core operational activities of ON Semiconductor. Management uses these non-GAAP measures internally to make strategic decisions, forecast future results and evaluate ON Semiconductor's current performance. In addition, we believe that most analysts covering ON Semiconductor use the non-GAAP measures. Given management's and other relevant use of these non-GAAP measures, ON Semiconductor believes these measures are important to investors in understanding ON Semiconductor's current and future operating results as seen through the eyes of management. In addition, management believes these non-GAAP measures are useful to investors in enabling them to better assess changes in ON Semiconductor's core business across different time periods. These non-GAAP measures are not in accordance with or an alternative to GAAP financial data and may be different from non-GAAP measures used by other companies. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures, even if they have similar names.

Adjusted EBITDA

Represents net income before interest expense, interest income, provision for income taxes, depreciation and amortization expense and special items. We use the adjusted EBITDA measure for internal managerial evaluation purposes, as a means to evaluate period-to-period comparisons and as a performance metric for the vesting/releasing of certain of our performance-based equity awards. Adjusted EBITDA is a non-GAAP financial measure. Regulation G under the Securities Act of 1933, as amended, and other federal securities laws regulate the use of financial measures that are not prepared in accordance with generally accepted accounting principles. We believe this measure provides important supplemental information to investors. However, we do not, and you should not, rely on non-GAAP financial measures alone as measures of our performance.

Non-GAAP Revenue

The use of non-GAAP Revenue allows management to evaluate, among other things, the revenue from the Company's core businesses and trends across different reporting periods on a consistent basis, independent of special items such as the impact of the change in revenue recognition on distributor sales implemented in the first quarter of 2017. In addition, it is an important component of management's internal performance measurement and incentive and reward process as it is used to assess the current and historical financial results of the business and for strategic decision making, preparing budgets, obtaining targets and forecasting future results. Management presents this non-GAAP financial measure to enable investors and analysts to evaluate our revenue generation performance relative to the direct costs of operations of ON Semiconductor's core businesses.

Non-GAAP Gross Profit and Gross Margin

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

Non-GAAP Operating Income and Operating Margin

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

Non-GAAP Income Before Income Taxes

The use of non-GAAP income before income taxes allows management to evaluate the operating results of ON Semiconductor's core businesses and trends across different reporting periods on a consistent basis, independent of non-cash items including, generally, the amortization and impairments of intangible assets, expensing of appraised inventory fair market value step-up, the impact from the change in revenue recognition on distributor sales, restructuring, gains and losses on debt prepayment, non-cash interest expense, actuarial

(gains) losses on pension plans and other pension benefits, third party acquisition and divestiture related costs, and certain other special items, as necessary. In addition, these items are important components of management's internal performance measurement and incentive and reward process, as they are used to assess the current and historical financial results of the business and for strategic decision making, preparing budgets, setting targets and forecasting future results. Management presents these non-GAAP financial measures to enable investors and analysts to understand the results of operations of ON Semiconductor's core businesses and, to the extent comparable, to compare our results of operations on a more consistent basis against that of other companies in our industry.

Free Cash Flow

The use of free cash flow allows management to evaluate, among other things, the ability of the Company to make interest or principal payments on its debt. Free cash flow is defined as the difference between cash flow from operating activities and capital expenditures disclosed under investing activities. Free cash flow is not an alternate to cash flow from operating activities as a measure of liquidity. It is an important component of management's internal performance measurement and incentive and reward process as it is used to assess the current and historical financial results of the business and for strategic decision making, preparing budgets, obtaining targets and forecasting future results. Management presents this non-GAAP financial measure to enable investors and analysts to evaluate our revenue generation performance relative to the direct costs of operations of ON Semiconductor's core businesses.

Diluted Share Count

In periods when the quarterly average stock price per share exceeds \$18.50, the non-GAAP diluted share count includes the anti-dilutive impact of the Company's hedge transactions issued concurrently with the 1.00% convertible notes. As such, at an average stock price per share between \$18.50 and \$25.96, the hedging activity offsets the potentially dilutive effect of the 1.00% convertible notes.

In periods when the quarterly average stock price per share exceeds \$20.72, the non-GAAP diluted share count includes the anti-dilutive impact of the Company's hedge transactions issued concurrently with the 1.625% Notes. As such, at an average stock price per share between \$20.72 and \$30.70, the hedging activity offsets the potentially dilutive effect of the 1.625% notes.