

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share data)

	Quarter Ended			Year Ended	
	December 31, 2017	September 29, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Revenues	\$ 1,377.5	\$ 1,390.9	\$ 1,261.0	\$ 5,543.1	\$ 3,906.9
Cost of revenues (exclusive of amortization shown below)	863.3	866.7	876.5	3,509.3	2,610.0
Gross profit	514.2	524.2	384.5	2,033.8	1,296.9
Gross margin	37.3%	37.7%	30.5%	36.7%	33.2%
Operating expenses:					
Research and development	158.0	150.9	139.8	594.4	452.3
Selling and marketing	80.3	78.6	79.4	315.9	238.0
General and administrative	71.0	68.9	72.2	284.9	230.3
Amortization of acquisition-related intangible assets	28.8	37.3	32.9	123.8	104.8
Restructuring, asset impairments and other, net	4.7	9.7	4.5	20.8	33.2
Intangible asset impairment	5.4	1.5	—	13.1	2.2
Total operating expenses	348.2	346.9	328.8	1,352.9	1,060.8
Operating income	166.0	177.3	55.7	680.9	236.1
Other income (expense), net:					
Interest expense	(33.2)	(34.9)	(40.9)	(141.2)	(145.3)
Interest income	1.2	0.7	0.7	3.0	4.5
Gain on divestiture of business	—	12.5	—	12.5	92.2
Licensing income	2.2	21.5	—	47.6	—
Loss on debt refinancing and prepayment	(14.3)	(6.7)	—	(47.2)	(6.3)
Other income (expense)	(0.9)	(2.1)	2.7	(8.1)	(0.6)
Other expense, net	(45.0)	(9.0)	(37.5)	(133.4)	(55.5)
Income before income taxes	121.0	168.3	18.2	547.5	180.6
Income tax benefit (provision)	410.0	(59.4)	93.5	265.5	3.9
Net income	531.0	108.9	111.7	813.0	184.5
Less: Net income attributable to non-controlling interest	(1.1)	(0.2)	(0.8)	(2.3)	(2.4)
Net income attributable to ON Semiconductor Corporation	\$ 529.9	\$ 108.7	\$ 110.9	\$ 810.7	\$ 182.1
Net income per common share attributable to ON Semiconductor Corporation:					
Basic	\$ 1.25	\$ 0.26	\$ 0.27	\$ 1.92	\$ 0.44
Diluted	\$ 1.22	\$ 0.25	\$ 0.26	\$ 1.89	\$ 0.43
Weighted average common shares outstanding:					
Basic	424.3	422.2	417.3	421.9	415.2
Diluted	433.3	427.5	426.9	428.3	420.0

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in millions)

	December 31, 2017	September 29, 2017	December 31, 2016
Assets			
Cash and cash equivalents	\$ 949.2	\$ 901.2	\$ 1,028.1
Receivables, net	701.5	695.6	629.8
Inventories	1,089.5	1,029.0	1,030.2
Other current assets	193.0	189.6	181.0
Total current assets	2,933.2	2,815.4	2,869.1
Property, plant and equipment, net	2,279.1	2,238.2	2,159.1
Goodwill	916.9	916.9	924.7
Intangible assets, net	628.3	662.5	762.1
Deferred tax assets	339.1	148.8	138.9
Other assets	98.5	79.5	70.5
Total assets	\$ 7,195.1	\$ 6,861.3	\$ 6,924.4
Liabilities, Non-Controlling Interest and Stockholders' Equity			
Accounts payable	\$ 548.0	\$ 590.3	\$ 434.0
Accrued expenses	612.8	580.5	405.0
Deferred income on sales to distributors	—	—	109.8
Current portion of long-term debt	248.1	258.5	553.8
Total current liabilities	1,408.9	1,429.3	1,502.6
Long-term debt	2,703.7	2,684.4	3,068.5
Deferred tax liabilities	55.1	309.1	288.9
Other long-term liabilities	226.4	203.1	186.5
Total liabilities	4,394.1	4,625.9	5,046.5
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	3,593.5	3,557.1	3,473.3
Accumulated other comprehensive loss	(40.6)	(43.8)	(50.2)
Accumulated earnings (deficit)	351.5	(178.4)	(527.3)
Less: Treasury stock, at cost	(1,131.1)	(1,128.0)	(1,078.0)
Total ON Semiconductor Corporation stockholders' equity	2,778.8	2,212.4	1,823.2
Non-controlling interest in consolidated subsidiary	22.2	23.0	21.8
Total stockholders' equity	2,801.0	2,235.4	1,845.0
Total liabilities and equity	\$ 7,195.1	\$ 6,861.3	\$ 6,924.4

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

(in millions)

	Quarter Ended			Year Ended	
	December 31, 2017	September 29, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net income	\$ 531.0	\$ 108.9	\$ 111.7	\$ 813.0	\$ 184.5
Adjusted for:					
Licensing income	(2.2)	(21.5)	—	(47.6)	—
R&D costs related to licensing income	3.7	2.2	—	10.0	—
Restructuring, asset impairments and other, net	4.7	9.7	4.5	20.8	33.2
Intangible asset impairment	5.4	1.5	—	13.1	2.2
Interest expense	33.2	34.9	40.9	141.2	145.3
Interest income	(1.2)	(0.7)	(0.7)	(3.0)	(4.5)
Loss on debt refinancing and prepayment	14.3	6.7	—	47.2	6.3
Income tax (benefit) provision	(410.0)	59.4	(93.5)	(265.5)	(3.9)
Net income attributable to non-controlling interest	(1.1)	(0.2)	(0.8)	(2.3)	(2.4)
Depreciation and amortization	123.4	127.7	120.0	481.9	364.1
Amortization of fair market value step-up of inventory	—	2.5	55.6	13.6	67.5
Sell-through to sell-in adjustment	—	—	—	(59.0)	—
Gain on divestiture of business	—	(12.5)	—	(12.5)	(92.2)
Adjustment to contingent consideration	(0.2)	(0.3)	0.8	1.8	(0.5)
Actuarial losses on pension plans and other pension benefits	1.9	—	10.0	1.9	10.0
Third party acquisition and divestiture related costs	1.0	0.5	3.5	3.2	25.8
Adjusted EBITDA	303.9	318.8	252.0	1,157.8	735.4
Increase (decrease):					
Licensing income	2.2	21.5	—	47.6	—
R&D costs related to licensing income	(3.7)	(2.2)	—	(10.0)	—
Restructuring, asset impairments and other, net	(4.7)	(9.7)	(4.5)	(20.8)	(33.2)
Interest expense	(33.2)	(34.9)	(40.9)	(141.2)	(145.3)
Interest income	1.2	0.7	0.7	3.0	4.5
Income tax benefit (provision)	410.0	(59.4)	93.5	265.5	3.9
Net income attributable to non-controlling interest	1.1	0.2	0.8	2.3	2.4
Amortization of fair market value step-up of inventory	—	(2.5)	(55.6)	(13.6)	(67.5)
Sell-through to sell-in adjustment	—	—	—	59.0	—
Adjustment to contingent consideration	0.2	0.3	(0.8)	(1.8)	0.5

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

(in millions)

Actuarial losses on pension plans and other pension benefits	(1.9)	—	(10.0)	(1.9)	(10.0)
Third party acquisition and divestiture related costs	(1.0)	(0.5)	(3.5)	(3.2)	(25.8)
Loss on sale or disposal of fixed assets	1.1	1.0	0.9	3.9	1.5
Amortization of debt discount and issuance costs	3.8	3.8	4.6	16.0	12.0
Payments for term debt modification	(1.4)	—	—	(3.8)	(26.4)
Write-down of excess inventories	10.2	21.2	26.1	67.0	66.2
Non-cash share-based compensation	17.1	16.8	14.2	69.8	56.1
Non-cash interest on convertible notes	8.9	8.6	6.4	30.8	26.0
Non-cash asset impairment charges	0.6	6.4	0.5	7.9	0.5
Change in deferred taxes	(444.4)	38.9	(103.6)	(348.3)	(38.1)
Other	(0.4)	0.6	(1.9)	2.2	(4.6)
Changes in operating assets and liabilities	(45.3)	(1.4)	50.5	(94.0)	23.1
Net cash provided by operating activities	<u>\$ 224.3</u>	<u>\$ 328.2</u>	<u>\$ 229.4</u>	<u>1,094.2</u>	<u>581.2</u>
Cash flows from investing activities:					
Purchases of property, plant and equipment	\$ (175.7)	\$ (90.1)	\$ (49.9)	\$ (387.5)	\$ (210.7)
Proceeds from sales of property, plant and equipment	12.2	0.3	—	14.3	0.4
Deposits utilized for purchases of property, plant and equipment	(6.1)	(3.2)	(3.1)	(8.2)	(2.2)
Purchase of business, net of cash acquired	—	—	(6.8)	(0.8)	(2,284.0)
Proceeds from divestiture of business, net of cash transferred	—	20.0	—	20.0	104.0
Cash placed in escrow	—	—	—	—	(67.7)
Cash received from escrow	—	—	—	—	23.8
Purchases of held-to-maturity securities	—	—	—	(1.6)	—
Other	(1.0)	—	—	(0.7)	1.8
Net cash used in investing activities	<u>\$ (170.6)</u>	<u>\$ (73.0)</u>	<u>\$ (59.8)</u>	<u>\$ (364.5)</u>	<u>\$ (2,434.6)</u>
Cash flows from financing activities:					
Proceeds from issuance of common stock under the employee stock purchase plan	\$ 12.2	\$ 0.1	\$ 4.1	\$ 23.6	\$ 15.0
Proceeds from exercise of stock options	7.1	1.7	9.8	18.0	14.9
Payments of tax withholding for restricted shares	(3.1)	(11.4)	(1.9)	(28.1)	(12.3)
Repurchase of common stock	—	—	—	(25.0)	—
Proceeds from debt issuance	405.0	5.3	5.0	1,106.2	2,586.9
Payments of debt issuance and other financing costs	—	—	(0.3)	—	(6.8)
Repayment of long-term debt	(419.8)	(220.3)	(26.2)	(1,831.4)	(313.8)
Purchases of convertible note hedges	—	—	—	(144.7)	—

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

(in millions)

Proceeds from issuance of warrants	—	—	—	85.2	—
Payment of capital lease obligations	(1.2)	(1.2)	(2.7)	(8.9)	(14.9)
Payment of contingent consideration	(3.9)	—	—	(3.9)	—
Dividend to non-controlling shareholder of consolidated subsidiary	(1.9)	—	(2.4)	(1.9)	(4.3)
Net cash provided by (used in) financing activities	\$ (5.6)	\$ (225.8)	\$ (14.6)	\$ (810.9)	\$ 2,264.7
Effect of exchange rate changes on cash and cash equivalents	\$ (0.1)	\$ 0.2	\$ (7.4)	\$ 2.3	\$ (0.8)
Net increase (decrease) in cash and cash equivalents	\$ 48.0	\$ 29.6	\$ 147.6	\$ (78.9)	\$ 410.5
Cash and cash equivalents, beginning of period	\$ 901.2	\$ 871.6	\$ 880.5	\$ 1,028.1	\$ 617.6
Cash and cash equivalents, end of period	\$ 949.2	\$ 901.2	\$ 1,028.1	\$ 949.2	\$ 1,028.1

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES
(in millions, except per share and percentage data)

	Quarter Ended			Year Ended	
	December 31, 2017	September 29, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Reconciliation of GAAP revenue to non-GAAP revenue:					
GAAP revenue	\$ 1,377.5	\$ 1,390.9	\$ 1,261.0	\$ 5,543.1	\$ 3,906.9
Special items:					
a) Sell-through to sell-in adjustment	—	—	—	(155.1)	—
Total special items	—	—	—	(155.1)	—
Non-GAAP revenue	<u>\$ 1,377.5</u>	<u>\$ 1,390.9</u>	<u>\$ 1,261.0</u>	<u>\$ 5,388.0</u>	<u>\$ 3,906.9</u>
Reconciliation of GAAP gross profit to non-GAAP gross profit:					
GAAP gross profit	\$ 514.2	\$ 524.2	\$ 384.5	\$ 2,033.8	\$ 1,296.9
Special items:					
a) Sell-through to sell-in adjustment	—	—	—	(59.0)	—
b) Actuarial losses on pension plans and other pension benefits	2.6	—	3.2	2.6	3.2
c) Expensing of appraised inventory at fair market value step up	—	2.5	55.6	13.6	67.5
Total special items	2.6	2.5	58.8	(42.8)	70.7
Non-GAAP gross profit	<u>\$ 516.8</u>	<u>\$ 526.7</u>	<u>\$ 443.3</u>	<u>\$ 1,991.0</u>	<u>\$ 1,367.6</u>
Reconciliation of GAAP gross margin to non-GAAP gross margin:					
GAAP gross margin	37.3 %	37.7%	30.5%	36.7 %	33.2%
Special items:					
a) Sell-through to sell-in adjustment	— %	—%	—%	0.1 %	—%
b) Actuarial losses on pension plans and other pension benefits	0.2 %	—%	0.3%	— %	0.1%
c) Expensing of appraised inventory at fair market value step up	— %	0.2%	4.4%	0.2 %	1.7%
Total special items	0.2 %	0.2%	4.7%	0.3 %	1.8%
Non-GAAP gross margin	<u>37.5 %</u>	<u>37.9%</u>	<u>35.2%</u>	<u>37.0 %</u>	<u>35.0%</u>
Reconciliation of GAAP operating expenses to non-GAAP operating expenses:					
GAAP operating expenses	\$ 348.2	\$ 346.9	\$ 328.8	\$ 1,352.9	\$ 1,060.8

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)
(in millions, except per share and percentage data)

Special items:					
a) Actuarial gains (losses) on pension plans and other pension benefits	0.7	—	(6.8)	0.7	(6.8)
b) Amortization of acquisition related intangible assets	(28.8)	(37.3)	(32.9)	(123.8)	(104.8)
c) Restructuring, asset impairments and other, net	(4.7)	(9.7)	(4.5)	(20.8)	(33.2)
d) Intangible asset impairments	(5.4)	(1.5)	—	(13.1)	(2.2)
e) Third party acquisition and divestiture related costs	(1.0)	(0.5)	(3.5)	(3.2)	(25.8)
f) R&D Costs related to licensing income	(3.7)	(2.2)	—	(10.0)	—
Total special items	(42.9)	(51.2)	(47.7)	(170.2)	(172.8)
Non-GAAP operating expenses	<u>\$ 305.3</u>	<u>\$ 295.7</u>	<u>\$ 281.1</u>	<u>\$ 1,182.7</u>	<u>\$ 888.0</u>
Reconciliation of GAAP operating income to non-GAAP operating income:					
GAAP operating income	<u>\$ 166.0</u>	<u>\$ 177.3</u>	<u>\$ 55.7</u>	<u>\$ 680.9</u>	<u>\$ 236.1</u>
Special items:					
a) Sell-through to sell-in adjustment	—	—	—	(59.0)	—
b) Actuarial (gains) losses on pension plans and other pension benefits (cost of revenues)	2.6	—	3.2	2.6	3.2
c) Expensing of appraised inventory at fair market value step up	—	2.5	55.6	13.6	67.5
d) Amortization of acquisition related intangible assets	28.8	37.3	32.9	123.8	104.8
e) Actuarial (gains) losses on pension plans and other pension benefits (operating expenses)	(0.7)	—	6.8	(0.7)	6.8
f) Restructuring, asset impairments and other, net	4.7	9.7	4.5	20.8	33.2
g) Intangible asset impairments	5.4	1.5	—	13.1	2.2
h) Third party acquisition and divestiture related costs	1.0	0.5	3.5	3.2	25.8
i) R&D Costs related to licensing income	3.7	2.2	—	10.0	—
Total special items	45.5	53.7	106.5	127.4	243.5
Non-GAAP operating income	<u>\$ 211.5</u>	<u>\$ 231.0</u>	<u>\$ 162.2</u>	<u>\$ 808.3</u>	<u>\$ 479.6</u>
Reconciliation of GAAP operating margin to non-GAAP operating margin (operating income / revenues):					

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)

(in millions, except per share and percentage data)

GAAP operating margin	12.1 %	12.7%	4.4%	12.3 %	6.0%
Special items:					
a) Sell-through to sell-in adjustment	— %	—%	—%	(0.7)	—%
b) Actuarial losses on pension plans and other pension benefits (cost of revenues)	0.2 %	—%	0.3%	— %	0.1%
c) Expensing of appraised inventory at fair market value step up	— %	0.2%	4.4%	0.2 %	1.7%
d) Amortization of acquisition related intangible assets	2.1 %	2.7%	2.6%	2.2 %	2.7%
e) Actuarial (gains) losses on pension plans and other pension benefits (operating expenses)	(0.1 %)	—%	0.5%	— %	0.2%
f) Restructuring, asset impairments and other, net	0.3 %	0.7%	0.4%	0.4 %	0.8%
g) Intangible asset impairments	0.4 %	0.1%	—%	0.2 %	0.1%
h) Third party acquisition and divestiture related costs	0.1 %	—%	0.3%	0.1 %	0.7%
i) R&D Costs related to licensing income	0.3 %	0.2%	—%	0.2 %	—%
Total special items	3.3 %	3.9%	8.5%	2.7 %	6.3%
Non-GAAP operating margin	15.4 %	16.6%	12.9%	15.0 %	12.3%

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

GAAP income before income taxes	\$ 121.0	\$ 168.3	\$ 18.2	\$ 547.5	\$ 180.6
Special items:					
a) Sell-through to sell-in adjustment	—	—	—	(59.0)	—
b) Actuarial losses on pension plans and other pension benefits (cost of revenues)	2.6	—	3.2	2.6	3.2
c) Expensing of appraised inventory at fair market value step up	—	2.5	55.6	13.6	67.5
d) Amortization of acquisition related intangible assets	28.8	37.3	32.9	123.8	104.8
e) Actuarial losses (gains) on pension plans and other pension benefits (operating expenses)	(0.7)	—	6.8	(0.7)	6.8
f) Restructuring, asset impairments and other, net	4.7	9.7	4.5	20.8	33.2
g) Intangible asset impairments	5.4	1.5	—	13.1	2.2
h) Third party acquisition and divestiture related costs	1.0	0.5	3.5	3.2	25.8
i) R&D Costs related to licensing income	3.7	2.2	—	10.0	—
j) Loss on debt refinancing and prepayment	14.3	6.7	—	47.2	6.3
k) Non-cash interest on convertible notes	8.9	8.6	6.5	30.8	26.0
l) Pre-acquisition interest expense, net	—	—	—	—	48.3

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)
(in millions, except per share and percentage data)

m) Adjustment to contingent consideration	(0.2)	(0.3)	0.8	1.8	(0.5)
n) Licensing income	(2.2)	(21.5)	—	(47.6)	—
o) Gain on divestiture of business	—	(12.5)	—	(12.5)	(92.2)
Total special items	66.3	34.7	113.8	147.1	231.4
Non-GAAP income before income taxes	<u>\$ 187.3</u>	<u>\$ 203.0</u>	<u>\$ 132.0</u>	<u>\$ 694.6</u>	<u>\$ 412.0</u>
Reconciliation of GAAP net income to non-GAAP net income:					
GAAP net income attributable to ON Semiconductor Corporation	<u>\$ 529.9</u>	<u>\$ 108.7</u>	<u>\$ 110.9</u>	<u>\$ 810.7</u>	<u>\$ 182.1</u>
Special items:					
a) Sell-through to sell-in adjustment	—	—	—	(59.0)	—
b) Actuarial losses on pension plans and other pension benefits (cost of revenues)	2.6	—	3.2	2.6	3.2
c) Expensing of appraised inventory at fair market value step up	—	2.5	55.6	13.6	67.5
d) Amortization of acquisition related intangible assets	28.8	37.3	32.9	123.8	104.8
e) Actuarial losses (gains) on pension plans and other pension benefits (operating expenses)	(0.7)	—	6.8	(0.7)	6.8
f) Restructuring, asset impairments and other, net	4.7	9.7	4.5	20.8	33.2
g) Intangible asset impairments	5.4	1.5	—	13.1	2.2
h) Third party acquisition and divestiture related costs	1.0	0.5	3.5	3.2	25.8
i) R&D Costs related to licensing income	3.7	2.2	—	10.0	—
j) Loss on debt refinancing and prepayment	14.3	6.7	—	47.2	6.3
k) Non-cash interest on convertible notes	8.9	8.6	6.5	30.8	26.0
l) Pre-acquisition interest expense, net	—	—	—	—	48.3
m) Adjustment to contingent consideration	(0.2)	(0.3)	0.8	1.8	(0.5)
n) Licensing income	(2.2)	(21.5)	—	(47.6)	—
o) Gain on divestiture of business	—	(12.5)	—	(12.5)	(92.2)
p) Adjustment of income taxes	(428.9)	46.0	(101.7)	(333.3)	(31.2)
Total special items	<u>(362.6)</u>	<u>80.7</u>	<u>12.1</u>	<u>(186.2)</u>	<u>200.2</u>
Non-GAAP net income attributable to ON Semiconductor Corporation	<u>\$ 167.3</u>	<u>\$ 189.4</u>	<u>\$ 123.0</u>	<u>\$ 624.5</u>	<u>\$ 382.3</u>
Adjustment of income taxes:					
Tax adjustment for Special Items (1)	<u>\$ (23.2)</u>	<u>\$ (12.1)</u>	<u>\$ (39.8)</u>	<u>\$ (51.5)</u>	<u>\$ (81.0)</u>
Other non-GAAP tax adjustment (2)	44.2	58.1	(61.9)	168.1	49.8
Non-cash impact of U.S. tax reform (3)	(449.9)	—	—	(449.9)	—
	<u>\$ (428.9)</u>	<u>\$ 46.0</u>	<u>\$ (101.7)</u>	<u>\$ (333.3)</u>	<u>\$ (31.2)</u>

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)

(in millions, except per share and percentage data)

- (1) Tax impact of non-GAAP Special Items (a)-(o), calculated using the federal statutory rate of 35%
- (2) The income tax adjustment primarily represents the use of the net operating loss, non-cash impact of not asserting indefinite reinvestment on earnings of our foreign subsidiaries, deferred tax expense not affecting taxes payable, and non-cash expense (benefit) related to uncertain tax positions.
- (3) Non-cash tax impacts of U.S. tax reform legislation, H.R.1, commonly referred to as the Tax Cuts and Jobs Act.

Reconciliation of GAAP diluted share count to non-GAAP diluted share count:					
GAAP diluted share count	433.3	427.5	426.9	428.3	420.0
Special items:					
a) Dilutive share count attributable to convertible notes	(3.4)	—	—	(0.9)	—
Total Special items	(3.4)	—	—	(0.9)	—
Non-GAAP diluted share count	429.9	427.5	426.9	427.4	420.0
Non-GAAP diluted earnings per share:					
Non-GAAP net income attributable to ON Semiconductor Corporation	\$ 167.3	\$ 189.4	\$ 123.0	\$ 624.5	\$ 382.3
Non-GAAP diluted share count	429.9	427.5	426.9	427.4	420.0
Non-GAAP diluted earnings per share	\$ 0.39	\$ 0.44	\$ 0.29	\$ 1.46	\$ 0.91
Reconciliation of Net cash provided by operating activities to free cash flow:					
Net cash provided by operating activities	\$ 224.3	\$ 328.2	\$ 229.4	\$ 1,094.2	\$ 581.2
Special items:					
a) Purchases of property, plant and	(175.7)	(90.1)	(49.9)	(387.5)	(210.7)
Total special items	(175.7)	(90.1)	(49.9)	(387.5)	(210.7)
Free cash flow	\$ 48.6	\$ 238.1	\$ 179.5	\$ 706.7	\$ 370.5

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			Year Ended	
	December 31, 2017	September 29, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Cost of revenues	\$ 1.6	\$ 1.4	\$ 2.0	\$ 6.0	\$ 8.0
Research and development	2.9	3.2	2.8	12.5	11.1
Selling and marketing	2.9	2.8	2.6	11.7	9.8
General and administrative	9.7	9.4	6.8	39.6	27.2
Total share-based compensation expense	\$ 17.1	\$ 16.8	\$ 14.2	\$ 69.8	\$ 56.1

NON-GAAP MEASURES

To supplement the consolidated financial results prepared in accordance with GAAP, ON Semiconductor uses certain non-GAAP measures, which are adjusted from the most directly comparable GAAP measures 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, tax impact of these items 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 to evaluate ON Semiconductor's performance. 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 prepared in accordance with, and should not be considered alternatives or necessarily superior to, 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

Adjusted EBITDA is a non-GAAP financial measure that 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. 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, non-GAAP Revenue 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 MEASURES (Continued)

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 Net Income Attributable to ON Semiconductor and Diluted Earnings per Share

The use of non-GAAP net income attributable to ON Semiconductor and diluted earnings per share 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, tax impact of these items and other non-GAAP adjustments 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.

NON-GAAP MEASURES (Continued)

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 in the consolidated statement of cash flows. 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.