Operations and Comprehensive Income relating to certain reporting units in our Standard Products Group and System Solutions Group. See Note 5: “Goodwill and Intangible Assets” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information on goodwill and intangible asset impairments.

(3) The Company adopted ASU No. 2015-03 - “Simplifying the Presentation of Debt Issuance Costs” during the quarter ended December 31, 2015 and elected the retrospective application of the new guidance, consistent with a change in accounting principle. The information included on the Company’s Consolidated Balance Sheet has been retrospectively adjusted in accordance with ASU No. 2015-03. See Note 3: “Recent Accounting Pronouncements” for additional information.

Item 7. 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 elsewhere in this Form 10-K. 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 in Part 1, Item 1A “Risk Factors” included elsewhere in this Form 10-K.

Executive Overview

This executive overview presents summarized information regarding our industry, markets, business and operating trends only. For further information relating to the information summarized herein, see Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in its entirety.

Industry Overview

According to WSTS (an industry research firm), worldwide semiconductor industry sales were $335.2 billion in 2015, a decrease of approximately 0.2% from $335.8 billion in 2014. We participate in unit and revenue surveys and use data summarized by WSTS to evaluate overall semiconductor market trends and also to track our progress against the market in the areas we provide semiconductor components. The following table sets forth total worldwide semiconductor industry revenues and revenues in our Serviceable Addressable Market (“SAM”) since 2011:

Year Ended December 31,	Worldwide Semiconductor Industry Sales (1) (in billions)	Percentage Change	Serviceable Addressable Market Sales (1) (2) (in billions)	Percentage Change
2015	$ 335.2	(0.2)%	$ 115.9	(0.2)%
2014	$ 335.8	9.9 %	$ 116.1	11.3 %
2013	$ 305.6	4.8 %	$ 104.3	0.6 %
2012	$ 291.6	(2.6)%	$ 103.7	(3.4)%
2011	$ 299.5	0.4 %	$ 107.4	(2.5)%

(1) Based on shipment information published by WSTS. WSTS collects this information based on product shipments, which differs from how we recognize revenue on shipments to certain distributors as described

in Note 2: "Significant Accounting Policies - Revenue Recognition" in the notes to our audited consolidated financial statements contained elsewhere in this report. We believe the data provided by WSTS is reliable, but we have not independently verified it. WSTS periodically revises its information. We assume no obligation to update such information.

(2) Our SAM comprises the following specific WSTS product categories: (a) discrete products (all discrete semiconductors other than sensors, microwave power transistors/modules, microwave diodes, and microwave transistors, power modules, logic and optoelectronics); (b) standard analog products (amplifiers, VREGs and references, comparators, ASSP consumer, ASSP communications, ASSP computer, ASSP automotive and ASSP industrial and others); (c) standard logic products (general purpose logic); (d) standard product logic (consumer other, computer other peripherals, wired / wireless communications, automotive, industrial and multipurpose); (e) CMOS and CCD image sensors; (f) memory; (g) microcontrollers and (h) motor control modules. Our SAM is derived using the most recent information available, excluding foundry exposure, at the time of the filing of each respective period's annual report and is revised in subsequent periods to reflect final results.

Worldwide semiconductor industry sales grew 0.4% in 2011, declined 2.6% in 2012, grew 4.8% in 2013, grew 9.9% in 2014, and declined 0.2% in 2015 following a pattern associated with the financial crisis, subsequent recovery and persistent economic uncertainty. The decrease of 0.2% from 2014 to 2015 is related to the challenging global macroeconomic conditions within the semiconductor industry which continue to affect sales in all geographic regions. Sales in our SAM decreased to $107.4 billion in 2011, decreased to $103.7 billion in 2012, increased to $104.3 billion in 2013, increased to $116.1 billion in 2014, and decreased to $115.9 billion in 2015. The decrease of approximately 0.2% from $116.1 billion in 2014 to $115.9 billion in 2015 is consistent with the trend in the worldwide semiconductor market. The most recently published estimates of WSTS project a compound annual growth rate in our SAM of approximately 4% for the next three years. These projections are not ours and may not be indicative of actual results.

Recent Results

Our total revenues for the year ended December 31, 2015 were $3,495.8 million, an increase of approximately 11% from $3,161.8 million from the year ended December 31, 2014. The majority of the increase was attributable to our 2014 acquisitions of Aptina and Truesense, which experienced a full year of operations during 2015, partially offset by decreased revenue from our System Solutions Group. During 2015, we reported net income attributable to ON Semiconductor Corporation of $206.2 million compared to net income attributable to ON Semiconductor Corporation of $189.7 million in 2014. Our gross margin decreased by approximately 20 basis points to 34.1% in 2015 from 34.3% in 2014, primarily driven by changes in volume and mix across certain of our product lines.

Business Overview

We are driving innovation in energy efficient electronics. Our extensive portfolio of analog, digital and mixed signal ICs, standard products, image sensors and custom 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, 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 image sensors, optical image stabilization and auto focus devices provide advanced imaging 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 and memory categories used by the WSTS group.

Our new product development efforts continue to be focused on building solutions in product areas that appeal to customers in focused market segments and across multiple high growth applications. We collaborate with our customers to identify desired innovations in electronic systems in each end-market that we serve. This enables us to participate in the fastest growing sectors of the market. We also innovate in advanced packaging technologies to support ongoing size reduction in electronic systems and in advanced thermal packaging to support high performance power conversion applications. It is our practice to regularly re-evaluate our research and development spending, to assess the deployment of resources and to review the funding of high growth technologies. We deploy people and capital with the goal of maximizing our investment in research and development in order to facilitate continued growth by targeting innovative products and solutions for high growth applications that position us to outperform the industry. Our design expertise in analog, digital, mixed signal and imaging ICs, combined with our extensive portfolio of standard products enable the company to offer comprehensive, value added solutions to our global customers for their electronics systems.

On November 18, 2015, we entered into a definitive agreement and plan of merger under which, subject to the conditions set forth in the agreement and plan of merger, we will acquire Fairchild for $20.00 per share in an all cash transaction valued at approximately $2.4 billion. We believe the acquisition creates a leader in the power semiconductor market with combined revenue of approximately $5.0 billion, diversified across multiple markets with a strategic focus on automotive, industrial and smartphone end-markets. See Part I, Item 1 "Business - Recent Company Mergers and Acquisitions," Part I, Item 1A "Risk Factors" and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information. See also Note 20: "Recent Developments and Subsequent Events" of the notes to our audited consolidated financial statements, included elsewhere in this Form 10-K for additional information.

Historically, the semiconductor industry has been highly cyclical. During a down cycle, unit demand and pricing have tended to fall in tandem, resulting in revenue declines. In response to such declines, manufacturers have reduced or shut down production capacity. When new applications or other factors have caused demand to strengthen, production volumes have historically stabilized and then grown again. As market unit demand reaches levels above capacity production capabilities, shortages begin to occur, which typically causes pricing power to swing back from customers to manufacturers, thus prompting further capacity expansion. Such expansion has typically resulted in overcapacity following a decrease in demand, which has triggered another similar cycle.

Business and Macroeconomic Environment Influence on Cost Savings and Restructuring Activities

We have recognized efficiencies from previously implemented restructuring activities and programs and continue to implement profitability enhancement programs to improve our cost structure. However, the semiconductor industry has traditionally been highly cyclical and has often experienced significant downturns in connection with, or in anticipation of, declines in general economic conditions. 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. Such actions continued in 2015. See "Results of Operations" under the heading "Restructuring, asset impairments and other, net" below, along with Note 6: "Restructuring, Asset Impairments and Other, Net" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for information relating to our most recent cost saving actions.

Outlook

ON Semiconductor Q1 2016 Outlook

Based upon product booking trends, backlog levels, and estimated turns levels, we estimate that our revenues will be approximately $800 to $840 million in the first quarter of 2016. Backlog levels for the first quarter of 2016 represent approximately 80% to 85% of our anticipated first quarter 2016 revenues. We estimate average selling prices for the first quarter of 2016 will be down approximately 2% compared to the fourth quarter of 2015. For the first quarter of 2016, we estimate that gross margin as a percentage of revenues will be approximately 31.8% to 33.8%. Our outlook does not include any contributions from the acquisition of Fairchild.

Results of Operations

Our results of operations for the year ended December 31, 2015 include the results of operations from our acquisitions of Aptina, Truesense, and AXSEM on August 15, 2014, April 30, 2014, and July 15, 2015, respectively.

Operating Results

The following table summarizes certain information relating to our operating results that has been derived from our audited consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 (in millions):

	Year ended December 31,			Dollar Change	
	2015	2014	2013	2014 to 2015	2013 to 2014
Revenues	$ 3,495.8	$ 3,161.8	$ 2,782.7	$ 334.0	$ 379.1
Cost of revenues (exclusive of amortization shown below)	2,302.6	2,076.9	1,853.6	225.7	223.3
Gross profit	1,193.2	1,084.9	929.1	108.3	155.8
Operating expenses:					
Research and development	396.7	366.6	334.2	30.1	32.4
Selling and marketing	204.3	200.0	171.2	4.3	28.8
General and administrative	182.3	180.9	148.5	1.4	32.4
Amortization of acquisition-related intangible assets	135.7	68.4	33.1	67.3	35.3
Restructuring, asset impairments and other, net	9.3	30.5	33.2	(21.2)	(2.7)
Goodwill and intangible asset impairment	3.8	9.6	—	(5.8)	9.6
Total operating expenses	932.1	856.0	720.2	76.1	135.8
Operating income	261.1	228.9	208.9	32.2	20.0
Other (expense) income, net:					
Interest expense	(49.7)	(34.1)	(38.6)	(15.6)	4.5
Interest income	1.1	1.5	1.3	(0.4)	0.2
Other	7.7	(4.4)	1.5	12.1	(5.9)
Loss on debt extinguishment	(0.4)	—	(3.1)	(0.4)	3.1
Other (expense) income, net	(41.3)	(37.0)	(38.9)	(4.3)	1.9
Income before income taxes	219.8	191.9	170.0	27.9	21.9
Income tax (provision) benefit	(10.8)	0.2	(16.4)	(11.0)	16.6
Net income	209.0	192.1	153.6	16.9	38.5
Less: Net income attributable to non-controlling interest	(2.8)	(2.4)	(3.2)	(0.4)	0.8
Net income attributable to ON Semiconductor Corporation	$ 206.2	$ 189.7	$ 150.4	$ 16.5	$ 39.3

Revenues

Revenues were $3,495.8 million, $3,161.8 million and $2,782.7 million for 2015, 2014 and 2013, respectively. The increase of approximately 11% in 2015, compared to 2014, was primarily attributed to approximately $409.6 million of additional revenue in the Image Sensor Group provided by a full year of operations from the 2014 acquisitions of Aptina and Truesense, partially offset by decreased revenue from our System Solutions Group and a decrease in average selling prices of approximately 8%.

The increase in revenues from 2014 compared to 2013 was primarily attributed to approximately $262.4 million of additional revenue in the Image Sensor Group provided by the acquisitions of Aptina and Truesense, along with increases from our Application Products Group and Standard Products Group, which experienced greater revenue as a result of an improved demand environment. The increase in revenue was partially offset by decreased revenue from our System Solutions Group.

Revenues by reportable segment for each of the years ended 2015, 2014 and 2013, were as follows (dollars in millions):

	2015	As a % of Revenue (1)	2014	As a % of Revenue (1)	2013	As a % of Revenue (1)
Application Products Group	$ 1,056.5	30.2%	$ 1,070.4	33.9%	$ 996.8	35.8%
Image Sensor Group	717.3	20.5%	306.1	9.7%	39.5	1.4%
Standard Products Group	1,215.1	34.8%	1,210.4	38.3%	1,121.2	40.3%
System Solutions Group	506.9	14.5%	574.9	18.2%	625.2	22.5%
Total revenues	$ 3,495.8		$ 3,161.8		$ 2,782.7	

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

Revenues from the Application Products Group

Revenues from the Application Products Group decreased by $13.9 million, or approximately 1%, during 2015 compared to 2014, and increased by $73.6 million or approximately 7% during 2014 compared to 2013.

The 2015 decrease resulted from a decrease in revenues from analog products of $18.5 million, or approximately 5%, a decrease in revenues from TMOS products of $5.0 million, or approximately 11%, partially offset by an increase in revenues from ASIC products of $13.3 million, or approximately 2%.

The 2014 increase resulted from an increase in revenues from ASIC products of $44.4 million, or approximately 9%, an increase in revenues from analog products of $13.2 million, or approximately 3%, an increase in revenues from foundry services of $8.8 million, or approximately 65%, and an increase in revenues from TMOS products of $7.8 million, or approximately 20%.

Revenues from the Image Sensor Group

Revenues from the Image Sensor Group increased by $411.2 million during 2015 compared to 2014 and increased $266.6 million during 2014 compared to 2013.

This increase is primarily attributable to revenue provided by the 2014 acquisitions of Aptina and Truesense, which generated approximately $409.6 million of additional revenue attributable to a full year of operations during 2015 compared to 2014 and $262.4 million of revenue during the post combination period of 2014.

Revenues from the Standard Products Group

Revenues from the Standard Products Group increased by $4.7 million, or less than 1%, during 2015 compared to 2014 and increased by $89.2 million, or approximately 8%, during 2014 compared to 2013.

The 2015 increase resulted from an increase in revenues from our memory products of $16.7 million, or approximately 24%, an increase in revenues from analog products of $5.1 million, or approximately 2%, and an increase in revenues from discrete products of $3.0 million, or approximately 1%, partially offset by a decrease in revenues from TMOS products of $14.6 million, or approximately 6%.

The 2014 increase resulted from an increase in revenues from discrete products of $60.4 million, or approximately 14%, an increase in revenues from analog products of $24.1 million, or approximately 8%, and an increase in revenues from memory products of $11.3 million, or approximately 20%, partially offset by a decrease in revenues from TMOS products.

Revenues from the System Solutions Group

Revenues from the System Solutions Group decreased by $68.0 million, or approximately 12%, during 2015 compared to 2014 and decreased by $50.3 million, or approximately 8%, during 2014 compared to 2013.

The 2015 decrease is primarily attributable to a $48.3 million, or approximately 13%, decrease in revenue from LSI products and a $14.1 million, or approximately 13%, decrease in revenue from HIC products resulting from a softening of the Japanese consumer end-markets and an increase in competition in other regions.

The 2014 decrease resulted from a decrease in demand from the Japanese consumer market and an increase in competition in other regions, causing a decrease in revenue from LSI products of approximately $53.8 million, or approximately 13%.

Revenues by Geographic 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):

	2015	As a % of Revenue (1)	2014	As a % of Revenue (1)	2013	As a % of Revenue (1)
United States	$ 544.3	15.6%	$ 497.0	15.7%	$ 415.4	14.9%
United Kingdom	503.2	14.4%	497.9	15.7%	400.2	14.4%
Hong Kong	874.4	25.0%	975.3	30.8%	862.4	31.0%
Japan	281.7	8.1%	293.1	9.3%	290.2	10.4%
Singapore	1,120.7	32.1%	786.5	24.9%	700.6	25.2%
Other	171.5	4.9%	112.0	3.5%	113.9	4.1%
Total	$ 3,495.8		$ 3,161.8		$ 2,782.7	

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

For additional information, see the table of revenues by geographic location included in Note 18: “Segment Information” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

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

Our gross profit by reportable segment in each of the three years below was as follows (dollars in millions):

	2015	As a % of Segment Revenue (2)	2014	As a % of Segment Revenue (2)	2013	As a % of Segment Revenue (2)
Application Products Group	$ 462.6	43.8 %	$ 476.2	44.5 %	$ 427.6	42.9 %
Image Sensor Group	232.4	32.4 %	91.3	29.8 %	24.5	62.0 %
Standard Products Group	415.9	34.2 %	432.2	35.7 %	387.9	34.6 %
System Solutions Group	98.1	19.4 %	118.6	20.6 %	99.7	15.9 %
Gross profit by segment	$ 1,209.0		$ 1,118.3		$ 939.7	
Unallocated manufacturing (1) (3)	(15.8)	(0.5)%	(33.4)	(1.1)%	(10.6)	(0.4)%
Total gross profit	$ 1,193.2	34.1 %	$ 1,084.9	34.3 %	929.1	33.4 %

(1) Unallocated manufacturing costs are being shown as a percentage of total revenue.

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

(3) During the third quarter of 2015, the Company began allocating certain manufacturing costs to its segments that were previously included as unallocated manufacturing costs. Comparative information has been recast to conform with the current period presentation. Unallocated manufacturing costs are shown as a percentage of total revenue.

Our gross profit was $1,193.2 million, $1,084.9 million and $929.1 million for the years ended December 31, 2015, 2014 and 2013, respectively. The gross profit increase of $108.3 million, or approximately 10%, for the year ended December 31, 2015 compared to 2014 is primarily due to the contributions of our recent acquisitions, approximately $27.0 million for the amortization of the fair market value of inventory step-up from our acquisitions during the year ended December 31, 2014 for which there was no amortization during 2015, and manufacturing and cost improvements that were partially offset by decreased average selling prices.

The gross profit increase during 2014 compared to 2013 is primarily attributable to increased revenues, along with increased capacity utilization and cost savings realized from previous restructuring activities, partially offset by decreased average selling prices and approximately $27.0 million for the expensing of the fair market value of inventory step-up from our acquisitions during the year ended December 31, 2014.

Gross margin decreased to approximately 34.1% during 2015 compared to approximately 34.3% during 2014. This decrease was primarily driven by a larger proportion of our revenues provided by our Image Sensor Group which generates lower gross margin levels than our Application Products Group and Standard Products Group.

The increase in gross margin as a percentage of revenues during 2014 compared to 2013 was primarily driven by favorable changes in volume and mix across certain product lines as well as a larger proportion of revenues generated from our Applications Products Group, Image Sensor Group and Standard Products Group which experienced higher gross margin levels than our System Solutions Group.

Operating Expenses

Research and Development

Research and development expenses were $396.7 million, $366.6 million and $334.2 million, representing approximately 11%, 12% and 12% of revenues, for the years ended December 31, 2015, 2014 and 2013, respectively.

The increase in research and development expenses of $30.1 million, or approximately 8%, during 2015 compared to 2014 is primarily associated with an increase of approximately $50.4 million from expenses attributable to the operations of Aptina and Truesense for the full period in 2015. These expenses were partially offset by lower payroll, including incentive compensation and payroll related costs in our Application Products Group and System Solutions Group.

The increase in research and development during 2014 compared to 2013 was primarily associated with approximately $38.0 million of expenses attributable to our 2014 acquisitions of Aptina and Truesense. These expenses were further increased by greater personnel costs in our Application Products Group and Standard Products Group, along with increased performance-based compensation as a result of improved performance results for 2014 compared to 2013, partially offset by decreases in our System Solutions Group attributable to decreased payroll related expenses resulting from our restructuring and cost saving activities.

Selling and Marketing

Selling and marketing expenses were $204.3 million, $200.0 million and $171.2 million, representing approximately 6% of revenues, for the years ended December 31, 2015, 2014 and 2013, respectively.

The increase in selling and marketing expenses of $4.3 million, or approximately 2%, during 2015 compared to 2014 is primarily associated with an increase of approximately $23.5 million for expenses attributable to the operations of Aptina and Truesense for the full period in 2015. These expenses were partially offset by lower payroll, including incentive compensation and payroll related costs in our Application Products Group, Standard Products Group and System Solutions Group.

The increase in selling and marketing expenses during 2014 compared to 2013 was primarily associated with approximately $11.2 million of expenses attributable to our 2014 acquisitions of Aptina and Truesense, along with increased sales commissions and increased payroll related expenses associated with performance-based compensation as a result of improved performance results for 2014 compared to 2013.

General and Administrative

General and administrative expenses were $182.3 million, $180.9 million and $148.5 million, representing approximately 5%, 6% and 5% of revenues, for the years ended December 31, 2015, 2014 and 2013, respectively.

The increase in general and administrative expenses of $1.4 million, or less than 1%, during 2015 compared to 2014 includes an increase of approximately $14.6 million for expenses attributable to the operations of Aptina and Truesense for the full period in 2015, partially offset by lower payroll, including incentive compensation and payroll related costs in our Application Products Group, Standard Products Group and System Solutions Group.

The increase in general and administrative expenses during 2014 compared to 2013 was primarily associated with approximately $9.6 million of expenses attributable to our 2014 acquisitions of Aptina and Truesense, along with increased payroll related expenses associated with performance-based compensation as a result of improved performance results for 2014 compared to 2013, in addition to approximately $8.1 million in third-party acquisition-related expenses.

Amortization of Acquisition—Related Intangible Assets

Amortization of acquisition-related intangible assets was $135.7 million, $68.4 million and $33.1 million for the years ended December 31, 2015, 2014 and 2013, respectively. The increase of $67.3 million during 2015 compared to 2014 is attributable to a full period of the amortization of intangible assets assumed as a result of our acquisitions of Aptina and Truesense.

The increase in amortization of acquisition-related intangible assets during 2014 compared to 2013 was primarily attributable to the amortization of intangible assets assumed as a result of our acquisitions of Aptina and Truesense.

See Note 5: “Goodwill and Intangible Assets” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

Restructuring, asset impairments and other, net

Restructuring, asset impairments and other, net was $9.3 million, $30.5 million and $33.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. The information below summarizes the major activities in each year. For additional information, see Note 6: “Restructuring, Asset Impairments and Other, Net” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K. We may incur additional restructuring charges in future periods, including charges as a result of acquisitions that we expect to close or may make in the future, particularly Fairchild.

2015

During the year ended December 31, 2015 we recorded approximately $9.3 million of net charges related to our restructuring programs, consisting primarily of $3.5 million of employee separation charges from our European marketing organization relocation plan and $4.8 million of general workforce reductions. Total Restructuring, asset impairments and other, net, was partially offset by a $3.4 million gain from the sale of assets and the change in foreign currency for our KSS facility.

During the first quarter of 2015, the Company announced that it would relocate its European customer marketing organization from France to Slovakia and Germany. As a result, six positions are expected to be eliminated. The Company recorded $3.5 million of related employee separation charges during the year ended December 31, 2015. The impacted employees are expected to exit during the second half of 2016.

During the third quarter of 2015, management approved and commenced implementation of restructuring actions, primarily targeted workforce reductions. The Company notified approximately 150 employees of their employment termination, the majority of which had exited by December 31, 2015. The total expense for the year ended December 31, 2015 was $4.8 million.

2014

During the fourth quarter of 2013, we initiated a voluntary retirement program for employees of certain of our System Solutions Group subsidiaries in Japan (the "Q4 2013 Voluntary Retirement Program"). Approximately 350 employees opted to retire under the Q4 2013 Voluntary Retirement Program, of which all employees had exited by December 31, 2014. For the year ended December 31, 2014, we recognized approximately $10.4 million of employee separation charges related to the Q4 2013 Voluntary Retirement Program.

In connection with the Q4 2013 Voluntary Retirement Program, approximately 70 contractor positions were also identified for elimination, all of which all had exited by the end of 2015. During the year ended December 31, 2014, an additional 40 positions were identified for elimination, as an extension of the Q4 2013 Voluntary Retirement Program, consisting of 20 employees and 20 contractors, substantially all of which had exited by December 31, 2014.

As a result of the Q4 2013 Voluntary Retirement Program, we recognized a pension curtailment benefit associated with the affected employees of $4.5 million during the year ended December 31, 2014, which is recorded in Restructuring, asset impairments and other, net. See Note 11: "Employee Benefit Plans" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

During the year ended December 31, 2014, we initiated further voluntary retirement activities applicable to an additional 60 to 70 positions for certain of our System Solutions Group subsidiaries in Japan, consisting of employees and contractors. Substantially all personnel had exited under this program by December 31, 2014.

On October 6, 2013, we announced a plan to close KSS (the "KSS Plan"). Pursuant to the KSS Plan, a majority of the production from KSS was transferred to other of our manufacturing facilities. The KSS Plan includes the elimination of approximately 170 full time and 40 contract employees. During the year ended December 31, 2014, we recorded approximately $7.8 million of employee separation charges and $2.3 million of exit costs related to the KSS Plan.

As a result of the KSS facility closure, we recognized a $2.1 million pension curtailment benefit associated with the affected employees during the year ended December 31, 2014, which was recorded in Restructuring, asset impairments and other, net. See Note 11: "Employee Benefit Plans" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

2013

During the year ended December 31, 2013, we initiated two voluntary retirement programs for certain employees of our System Solutions Group subsidiaries in Japan. Approximately 500 employees opted to retire pursuant to the first program, and substantially all employees had retired by December 31, 2013. Approximately 170 employees had retired by December 31, 2013 under the Q4 2013 Voluntary Retirement Program. As part of these restructuring activities, approximately half of the 70 contractor positions identified for elimination were terminated by the end of 2013.

We recorded net charges of approximately $37.3 million in connection with these programs, consisting of employee severance charges of $52.9 million, partially offset by pension and related retirement liability adjustments associated with the affected employees, which resulted in a pension curtailment benefit of $15.6 million.

During the year ended December 31, 2013, we recorded $3.1 million of restructuring charges related to the announced closure of our Aizu facility. We also released approximately $21.0 million of associated cumulative foreign currency translation gains related to our subsidiary that owned the Aizu facility, which utilized the Japanese Yen as its functional currency. The related amount was recorded as a benefit to Restructuring, asset impairments and other, net on our Consolidated Statements of Operations and Comprehensive Income. For additional information, see Note 16: "Changes in Accumulated Other Comprehensive Loss" of the notes to our consolidated financial statements included elsewhere in this Form 10-K.

We recorded approximately $10.0 million of net restructuring charges related to the KSS Plan during the year ended December 31, 2013, consisting of employee severance charges of $6.5 million and $3.5 million of asset impairment charges associated with the KSS Plan.

Indefinite and Long-Lived Asset Impairment Charges

2015

During the year ended December 31, 2015, we canceled certain of our previously capitalized IPRD projects and recorded impairment losses of $3.8 million. See Note 5: "Goodwill and Intangible Assets" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

2014

During the year ended December 31, 2014, we determined that approximately $8.7 million in carrying value of goodwill relating to one of our reporting units in the Application Products Group was impaired resulting from a decline in estimated future cash flows. In connection with this impairment, we wrote-off approximately $0.9 million of intangible assets and $4.7 million of other long-lived assets. See Note 5: "Goodwill and Intangible Assets" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

Other Income and Expenses

Interest Expense

Interest expense increased by $15.6 million to $49.7 million during 2015 compared to $34.1 million in 2014. Additionally, interest expense decreased by $4.5 million to $34.1 million during 2014 from $38.6 million in 2013. We recorded amortization of debt discount to interest expense of $17.5 million, $7.0 million and $11.2 million for 2015, 2014 and 2013, respectively. Our average gross amount of long-term debt balance (including current maturities) during 2015, 2014 and 2013, was $1,361.6 million, $1,085.6 million and $1,003.6 million, respectively. Our weighted average interest rate on our gross amount of long-term debt (including current maturities) was approximately 3.7%, 3.1% and 3.8% per annum in 2015, 2014 and 2013, respectively. See "Liquidity and Capital Resources - Key Financing and Capital Events" below for a description of our refinancing activities.

We expect interest expense to increase substantially in future periods, starting in the first quarter of 2016, due to the increased amount of debt we expect to incur in connection with the completion of the Fairchild Transaction as well as related fees that may be associated with the syndication of that debt in advance of closing the transaction.

Other

Other income increased by $12.1 million during 2015 compared to 2014 from expense of $4.4 million in 2014 to income of $7.7 million in 2015. Other income decreased by $5.9 million during 2014 compared to 2013 from a gain of $1.5 million in 2013 to a loss of $4.4 million in 2014. The change from year to year is largely attributable to fluctuations in foreign currencies against the dollar for the periods presented, net of the impact from our hedging activity, along with gains and losses on available-for-sale securities.

Loss on Debt Extinguishment

2015

During the year ended December 31, 2015, we amended our senior revolving credit facility to, among other things, increase the borrowing capacity to $1.0 billion and reset the facility's five year maturity. As a result of the amendment, we wrote-off $0.4 million of existing debt issuance costs associated with the facility, resulting in a loss during the year ended December 31, 2015.

2013

During the year ended December 31, 2013, we exchanged $60.0 million in principal value ($57.4 million of carrying value) of our 2.625% Notes for $58.5 million in principal value of our 2.625% Notes, Series B, plus accrued and unpaid interest on the 2.625% Notes, resulting in a loss on debt repurchase of $3.1 million. Subject to certain other terms and conditions, this transaction extended the earliest put date for the exchanged amount from December 2013 to December 2016.

See Note 8: "Long-Term Debt" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

Income Tax Provision (Benefit)

We recorded an income tax provision of $10.8 million, a benefit of $0.2 million and a provision of $16.4 million in 2015, 2014 and 2013, respectively.

The income tax provision for the year ended December 31, 2015 consisted of the reversal of $12.1 million of our previously established valuation allowance against our foreign deferred tax assets, the release of $4.3 million for reserves and interest for uncertain tax positions in foreign taxing jurisdictions that were effectively settled or for which the statute lapsed during the year ended December 31, 2015, and a change in tax rate that favorably impacted deferred balances by $1.6 million. This is partially offset by $24.4 million for income and withholding taxes of certain of our foreign and domestic operations and $4.4 million of new reserves and interest on existing reserves for uncertain tax positions in foreign taxing jurisdictions.

The 2014 income tax benefit of $0.2 million consisted of the reversal $23.3 million of our previously established valuation allowance against our U.S. deferred tax assets as a result of a net deferred tax liability recorded as part of the Truesense acquisition and the reversal of $4.6 million for reserves and interest for uncertain tax positions in foreign taxing jurisdictions that were effectively settled or for which the statute lapsed during the year ended December 31, 2014. This is partially offset by $19.8 million for income and withholding taxes of certain of our foreign and domestic operations, $4.6 million of new reserves and interest on existing reserves for uncertain tax positions in foreign taxing jurisdictions, and $3.3 million of deferred federal income taxes associated with tax deductible goodwill.

The 2013 provision of $16.4 million included $22.2 million for income and withholding taxes of certain of our foreign operations, $0.9 million of interest on existing reserves for potential liabilities in foreign taxing jurisdictions, and $2.7 million of deferred federal income taxes associated with tax deductible goodwill. This is partially offset by the reversal of $6.0 million of valuation allowances against deferred tax assets of certain foreign subsidiaries and the reversal of $3.4 million for reserves and interest for potential liabilities in foreign taxing jurisdictions which were effectively settled or for which the statute lapsed during 2013.

Our provision for income taxes is subject to volatility and could be adversely impacted by earnings being lower than anticipated in countries that have lower tax rates and earnings being higher than anticipated in countries that have higher tax rates. Our effective tax rate for the year ended December 31, 2015 was a provision of 4.9%, which differs from the U.S. statutory federal income tax rate of 35%, primarily due to our change in valuation allowance, deemed dividend income from foreign subsidiaries and tax rate differential in our foreign subsidiaries. Our effective tax rate was also lower than the U.S. statutory federal income tax rate for the year ended December 31, 2014 and December 31, 2013, due to our domestic tax losses and tax rate differential in our foreign subsidiaries. We continue to maintain a full valuation allowance on all of our domestic and Japan related deferred tax assets; however, it is reasonably possible that a substantial portion of the valuation allowance on our domestic deferred tax assets will be reversed within one year of December 31, 2015, which is not expected to have a material effect on the Company's cash taxes. As of December 31, 2015, the valuation allowance on our domestic deferred tax assets was approximately $330.4 million.

Except as required under U.S. tax law, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings. Accordingly, we have not provided for $54.1 million of deferred income taxes on approximately $1,307.7 million of undistributed earnings from foreign subsidiaries at December 31, 2015 over which we have sufficient influence to control the distribution of such earnings. These deferred income taxes would be required to be recognized if we ever determined that our undistributed earnings were no longer indefinitely reinvested outside the U.S.

For additional information, see Note 15: "Income Taxes" of the notes to the audited consolidated financial statements included elsewhere in this Form 10-K.

Our pending acquisition of Fairchild could cause us to reassess our indefinite reinvestment determination and valuation allowance at a future point in time when management believes all closing conditions associated with such acquisition have been obtained. If such a reassessment by us was to occur, and if we make a change with respect to our indefinite reinvestment determination or valuation allowance, such a change in judgment could impact our effective tax rate in the period in which such change in judgment occurs. Any such change in judgment in our indefinite reinvestment assertion could negatively impact our effective tax rate, to the extent that the liability exceeds our tax attribute carryforwards. At this time, it is not possible to ascertain whether the potential consummation of the pending Fairchild acquisition would be certain to result in a change in judgment with respect to our indefinite reinvestment determination or valuation allowance and, assuming such a change in judgment occurred, what impact such a change might have on our effective tax rate in the relevant current period or in any future periods.

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

Our principal outstanding contractual obligations relate to our long-term debt, capital leases, operating leases and purchase obligations. The following table summarizes our contractual obligations at December 31, 2015 and the effect such obligations are expected to have on our liquidity and cash flow in the future (in millions):

	Payments Due by Period						
Contractual obligations (1)(4)	**Total**	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
Long-term debt, excluding capital leases (2)	$1,566.5	$565.6	$ 76.7	$157.9	$58.3	$708.0	$ —
Capital leases (2)	29.7	15.9	9.6	3.5	0.7	—	—
Operating leases (3)	93.0	22.0	16.9	12.0	9.4	7.3	25.4
Purchase obligations (3):							
Capital purchase obligations	59.3	56.1	3.2	—	—	—	—
Inventory and external manufacturing purchase obligations	304.3	227.3	37.9	7.5	7.4	7.5	16.7
Information technology, communication and mainframe support services	13.0	8.3	3.8	0.8	0.1	—	—
Other	44.0	36.9	3.3	2.0	0.6	0.6	0.6
Total contractual obligations	$2,109.8	$932.1	$151.4	$183.7	$76.5	$723.4	$ 42.7

(1) The table above excludes approximately $16.4 million of liabilities related to unrecognized tax benefits because we are unable to reasonably estimate the timing of the settlement of such liabilities.

(2) Includes interest payments at applicable rates as of December 31, 2015.

(3) These represent our off-balance sheet arrangements (See “Liquidity and Capital Resources—Off-Balance Sheet Arrangements” for a description of our off-balance sheet arrangements).

(4) The table above does not include debt obligations, interest expense and fees associated with the debt we expect to incur in connection with the closing of the Fairchild Transaction.

This table also excludes our pension obligations. We expect to make cash contributions and future pension payments to comply with local funding requirements of approximately $6.9 million and $4.0 million, respectively in 2016. This future payment estimate assumes we continue to meet our statutory funding requirements. The timing and amount of contributions may be impacted by a number of factors, including the funded status of the plans. Beyond 2016, the actual amounts required to be contributed are dependent upon, among other things, interest rates, underlying asset returns and the impact of legislative or regulatory actions related to pension funding obligations. See Note 11: “Employee Benefit Plans” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for more information on our pension obligations.

Our balance of cash and cash equivalents was $617.6 million as of December 31, 2015. 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, exclusive of capital requirements associated with the Fairchild Transaction. Total cash and cash equivalents at December 31, 2015 include approximately $240.7 million available in the United States. In addition to cash and cash equivalents already on hand in the United States, we have the ability to obtain cash in the United States by settling loans with our foreign subsidiaries in order to cover our domestic needs, by utilizing existing credit facilities or through new bank loans or debt obligations.

We hold a significant amount of cash and cash equivalents outside the United States in various foreign subsidiaries. As we intend to reinvest certain of our foreign earnings indefinitely, this cash held outside the

United States in various foreign subsidiaries is not readily available to meet certain of our cash requirements in the United States. We require a substantial amount of cash in the United States for operating requirements, common stock and debt repurchases, payments and acquisitions. If we are unable to address our U.S. cash requirements through operations, borrowings under our current debt agreements or other sources of cash obtained at an acceptable cost, it may be necessary for us to consider repatriation of earnings that are indefinitely reinvested, and we may be required to pay additional taxes under current tax laws, which could have a material effect on our results of operations and financial condition.

See Note 8: “Long-Term Debt,” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for a discussion of our long-term debt.

See Part II, Item 5 “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” included elsewhere in this report for a discussion of restrictions on our ability to pay dividends and our stock repurchase activities.

Off-Balance Sheet Arrangements

In the normal 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 normal 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; and customs guarantees. Our senior revolving credit facility includes $15.0 million of availability for the issuance of letters of credit. A $0.2 million letter of credit was outstanding under our senior revolving credit facility as of December 31, 2015. We also had outstanding guarantees and letters of credit outside of our senior revolving credit facility of $5.0 million at December 31, 2015.

As part of securing financing in the normal course of business, we issued guarantees related to our capital lease obligations, equipment financing, lines of credit and real estate mortgages, which totaled approximately $170.0 million as of December 31, 2015. We are also a guarantor of SCI LLC’s non-collateralized loan with SMBC, which had a balance of $198.2 million as of December 31, 2015. See Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements found elsewhere in this Form 10-K for additional information.

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

For our operating leases, we expect to make cash payments and incur similar expenses totaling $93.0 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 12: “Commitments and Contingencies” of the notes to our audited consolidated financial statements found elsewhere in this Form 10-K 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 damages, 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 and our 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. We maintain directors' and officers' insurance, which should enable us to recover a portion of any future amounts paid.

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.

We expect to incur additional debt obligations to fund the acquisition of Fairchild. The new obligations are expected to increase leverage and contain covenants, and we cannot be certain at this time what the covenants will be.

See Part I, Item 3 "Legal Proceedings" and Note 12: "Commitments and Contingencies" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for possible contingencies related to legal matters. See also Part I, Item 1 "Business - Government Regulation" 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 senior revolving credit facility.

During the year ended December 31, 2015, we issued $690.0 million of our 1.00% Notes and used a portion of the proceeds to pay down amounts previously drawn on our senior revolving credit facility. We also increased the borrowing capacity of our senior revolving credit facility from $800.0 million to $1.0 billion and reset the five year maturity. See Note 8: "Long-Term Debt" of the notes to our audited consolidated financial statements found elsewhere in this Form 10-K for additional information.

As part of our business strategy, we review acquisition and divestiture opportunities and proposals on a regular basis. On July 15, 2015, we completed the purchase of AXSEM for $8.0 million in cash consideration, plus an additional unlimited contingent consideration with a fair value of $5.0 million. Approximately $0.8 million of cash consideration was held in escrow to secure against certain indemnifiable events in connection with the acquisition of AXSEM and is included on the Company's Consolidated Balance Sheet as of December 31, 2015. On August 15, 2014, we completed the purchase of Aptina, for a total purchase price of approximately $405.4 million in cash, of which approximately $2.9 million remained unpaid and approximately $40.0 million was held in escrow as of December 31, 2014. During the first quarter of 2015 the outstanding amount was paid and during the year ended December 31, 2015, $21.2 million of the escrow was released. Approximately $18.8 million remained in escrow as of December 31, 2015. On April 30, 2014, we completed the purchase of Truesense, for a total purchase price of approximately $95.7 million in cash. See Note 4: "Acquisitions" of the notes to our audited consolidated financial statements found elsewhere in this Form 10-K for additional information.

On November 18, 2015, we entered into the Fairchild Agreement, which provides for a proposed acquisition of Fairchild by us. The total transaction value is expected to be approximately $2.4 billion. We intend to finance the estimated $2.4 billion of cash consideration with a combination of cash on hand, proceeds from the issuance of debt or equity securities and new, fully-committed debt financing. See Part I, Item 1 "Business - Recent Company Mergers and Acquisitions," Part I, Item 1A "Risk Factors" and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information. See also Note 20: "Recent Developments and Subsequent Events" of the notes to our audited consolidated financial statements, included elsewhere in this Form 10-K, for additional information.

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 and 2.625% Notes, Series B, 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 twelve 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. During 2015, we paid $270.8 million for capital expenditures, while in 2014 we paid $204.3 million. Our current minimum commitment for 2016 is approximately $56.1 million. The capital expenditure levels can materially influence our available cash for other initiatives. 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 December 1, 2014, we announced a capital allocation policy (the “Capital Allocation Policy”) under which we intend to return to shareholders approximately 80 percent of free cash flow less repayments of long-term debt, subject to a variety of factors, including our strategic plans, market and economic conditions and the Board’s discretion. For the purposes of the Capital Allocation Policy, we define free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. We also announced the 2014 Share Repurchase Program pursuant to the Capital Allocation Policy. Under the 2014 Share Repurchase Program, we intend to repurchase approximately $1.0 billion of our common shares over a four year period, subject to the same factors and considerations described above. The 2014 Share Repurchase Program was effective December 1, 2014, and the $300 million 2012 Stock Repurchase Program was terminated on that date. See Part II, Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” for additional information with respect to our share repurchase program.

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 of new products.

Primary Cash Flow Sources

Our long-term cash generation is dependent on the ability of our operations to generate cash. Our cash flows from operations are summarized as follows (in millions):

	For the year ended December 31,		
	2015	**2014**	**2013**
Summarized cash flow from operating activities			
Net income	$ 209.0	$ 192.1	$ 153.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	357.6	268.8	211.8
Write-down of excess inventories	52.4	40.6	51.9
Non-cash share-based compensation expense	46.9	45.8	32.3
Non-cash interest	17.5	7.0	11.2
Non-cash asset impairment charges	0.2	6.5	8.0
Non-cash goodwill and intangible asset impairment charges	3.8	9.6	—
Non-cash foreign currency translation gain	—	—	(21.0)
Change in deferred taxes	(9.2)	(18.8)	1.4
Other	(3.5)	1.8	(2.7)
Changes in assets and liabilities (exclusive of the impact of acquisitions):			
Receivables	(11.3)	20.5	(35.4)
Inventories	(72.5)	(59.0)	(88.3)
Accounts payable	(32.2)	(17.3)	6.6
Deferred income on sales to distributors	(53.1)	24.6	6.0
Other long-term liabilities	(8.5)	(15.5)	(48.9)
Other changes in assets and liabilities	(26.5)	(25.4)	40.8
Net cash provided by operating activities	$ 470.6	$ 481.3	$ 327.3

Our cash flows provided by operating activities for the year ended December 31, 2015 decreased by approximately $10.7 million compared to the year ended December 31, 2014. The decrease is primarily attributable to the change in working capital during the period.

Our ability to maintain positive operating cash flows is dependent on, among other factors, our success in achieving our revenue goals and manufacturing and operating cost targets.

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

Working Capital

Working capital, calculated as total current assets less total current liabilities, fluctuates depending on end-market demand and our effective management of certain items such as receivables, inventory and payables. In times of escalating demand, our working capital requirements may be affected as we purchase additional manufacturing materials and increase production. Our working capital may also be affected by restructuring programs, which may require us to use cash for severance payments, asset transfers and contract termination costs. In addition, our working capital may be affected by acquisitions, capital activities as part of our share repurchase program and transactions involving our convertible notes and other debt instruments. Our working capital, excluding cash and cash equivalents and short-term investments, was $34.6 million as of December 31, 2015 and has fluctuated between $33.9 million and $315.8 million at the end of each of our last eight fiscal quarters. Our working capital, including cash and cash equivalents and short-term investments, was $652.2 million as of December 31, 2015 and has fluctuated between $611.8 million and $913.1 million over the last eight quarter-ends. Working capital as of December 31, 2015 includes the prospective application from the adoption of ASU 2015-17. Periods prior to December 31, 2015 have not been adjusted for the adoption of ASU 2015-17. See Note 3: “Recent Accounting Pronouncements” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

Although investments made to fund working capital will reduce our cash balances, these investments are necessary to support business and operating initiatives. For the year ended December 31, 2015, our working capital was most significantly impacted by the issuance of the 1.00% Notes, the repayment of amounts drawn on our revolving credit facility, the repurchase of our common stock and our capital expenditures. See Note 8: “Long-Term Debt” and Note 9: “Earnings Per Share and Equity” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K 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, consist of liabilities under our foreign defined benefit pension plans and contingent tax reserves. In regard to our foreign defined benefit pension plans, generally, our annual funding of these obligations is equal to the minimum amount legally required in each jurisdiction in which the plans operate. This annual amount is dependent upon numerous actuarial assumptions. For additional information, see Note 11: “Employee Benefit Plans” and Note 15: “Income Taxes” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

Key Financing and Capital Events

Overview

For the past several years, we have undertaken various 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. Certain of these measures continued in 2015. Set forth below is a summary of certain key financing events affecting our capital structure during the last three years. For further discussion of our debt instruments see Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

Recent Events

On November 18, 2015, we entered into the Fairchild Agreement, which provides for a proposed acquisition of Fairchild by us. The total transaction value is expected to be approximately $2.4 billion. We intend to finance the estimated $2.4 billion of cash consideration with a combination of cash on hand, proceeds from the issuance of debt or equity securities and new, fully-committed debt financing. See Part I, Item 1 “Business - Recent Company Mergers and Acquisitions,” Part I, Item 1A “Risk Factors” and Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations for additional information. See also Note 20: “Recent Developments and Subsequent Events” of the notes to our audited consolidated financial statements, included elsewhere in this Form 10-K for additional information.

We expect interest expense to increase substantially in future periods, starting in the first quarter of 2016, due to the increased amount of debt we expect to incur in connection with the completion of the Fairchild Transaction as well as related fees that may be associated with the syndication of that debt in advance of closing the transaction.

2015 Financing Events

Issuance of 1.00% Notes

During the second quarter of 2015, we completed a private unregistered offering for an aggregate principal amount of $690.0 million of our 1.00% Notes. The 1.00% Notes mature on December 1, 2020, unless earlier purchased or converted. We concurrently entered into convertible note hedge and warrant transactions with certain institutional counterparties. A portion of the proceeds from the offering were used to finance the hedge and warrant transactions associated with the issuance of the 1.00% Notes, to pay down the senior revolving credit facility and to repurchase $70.0 million of our common stock. The issuance was a private placement made pursuant to Rule 144A under the Securities Act. See Note 8: “Long-Term Debt,” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for information with respect to the 1.00% Notes.

Amended Senior Revolving Credit Facility

During the second quarter of 2015, we amended our $800.0 million senior revolving credit facility to, among other things, increase the borrowing capacity to $1.0 billion and reset the five year maturity. We also amended the terms of the related Amended and Restated Credit Agreement. The facility includes $15.0 million of availability for the issuance of letters of credit, $15.0 million of availability for swingline loans for short-term borrowings and a foreign currency sublimit of $75.0 million. The facility may be used for general corporate purposes, including working capital, stock repurchase, and/or acquisitions. See Note 8: “Long-Term Debt,” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for information with respect to our senior revolving credit facility.

Share Repurchase Program

During the year ended December 31, 2015, we purchased approximately 30.4 million shares of our common stock pursuant to our share repurchase program for an aggregate purchase price of approximately $347.8 million, exclusive of fees, commissions and other expenses, at a weighted-average execution price of $11.46 per share. See Part II, Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” for additional information. See also Note 9: “Earnings Per Share and Equity” of the notes to our audited consolidated financial statements under the heading “Equity - Share Repurchase Program” included elsewhere in this Form 10-K for information on the share repurchase program.

2014 Financing Events

Share Repurchase Program

During the year ended December 31, 2014, we purchased approximately 13.9 million shares of our common stock pursuant to our share repurchase programs for an aggregate purchase price of approximately $121.0 million, exclusive of fees, commissions and other expenses, at a weighted-average execution price of $8.71 per share. See Part II, Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” for additional information. See also Note 9: “Earnings Per Share and Equity” of the notes to our audited consolidated financial statements under the heading “Equity - Share Repurchase Program” included elsewhere in this Form 10-K for information on the share repurchase program.

Amounts Drawn on Amended and Restated Senior Revolving Credit Facility

During the third quarter of 2014, we drew an incremental amount of approximately $230.0 million to partially fund the purchase of Aptina. The outstanding balance of the facility as of December 31, 2014 was $350.0 million. See Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

2013 Financing Events

Share Repurchase Program

During the year ended December 31, 2013, we purchased approximately 13.9 million shares of our common stock pursuant to our previously announced share repurchase program for an aggregate purchase price of approximately $101.3 million, exclusive of fees, commissions and other expenses, at a weighted-average execution price per share of $7.29. See Note 9: “Earnings Per Share and Equity” of the notes to our audited consolidated financial statements under the heading “Equity - Share Repurchase Program” included elsewhere in this Form 10-K for additional information on the share repurchase program.

Convertible Note Exchange

During the year ended December 31, 2013, we exchanged $60.0 million in principal value ($57.4 million of carrying value) of our 2.625% Notes for $58.5 million in principal value of our 2.625% Notes, Series B, plus accrued and unpaid interest on the 2.625% Notes, resulting in a loss on debt repurchase of $3.1 million. Subject to certain other terms and conditions, this exchange extended the earliest put date for the exchanged amount from December 2013 to December 2016. See Note 8: “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information. This exchange was based on the exemption from registration in Section 3(a)(9) of the Securities Act.

Retirement of 1.875% and 2.625% Notes

On January 28, 2013, we settled the conversion obligation on the outstanding 1.875% Notes by delivering approximately $77.5 million in cash to the holders who tendered their 1.875% Notes for conversion. The excess

$4.1 million over the $73.4 million in aggregate outstanding principal amount of the 1.875% Notes was attributable to the conversion feature for the 1.875% Notes. The settlement of the conversion obligation on January 28, 2013 resulted in the retirement of our obligation under the 1.875% Notes.

On December 20, 2013, we exercised our option to redeem all of our outstanding 2.625% Notes. As a result, we paid the gross principal amount of $72.6 million to the holders of the 2.625% Notes and retired the outstanding obligation.

Note Payable to SMBC

On January 31, 2013, we amended and restated our seven-year non-collateralized loan obligation with SANYO Electric. In connection with the amendment and restatement of the loan agreement, SANYO Electric assigned all of its rights under the loan agreement to SMBC.

See Note 8: "Long-Term Debt" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information.

Amended and Restated Senior Revolving Credit Facility

On October 10, 2013, we entered into an $800.0 million, five-year senior revolving credit facility that was subsequently amended in 2015, as described above.

Debt Covenants

As of December 31, 2015, we believe that we were in compliance with the indentures relating to our 1.00% Notes and 2.625% Notes, Series B and with covenants relating to our senior revolving credit facility and various other debt agreements.

See Note 8: "Long-Term Debt" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K 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 audited consolidated financial statements, 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. We utilize the following critical accounting policies in the preparation of our financial statements.

Use of Estimates. The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires us 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) measurement of valuation allowances relating to trade receivables, inventories and deferred tax assets; (ii) estimates of future payouts for customer incentives and allowances, warranties, and restructuring activities; (iii) assumptions surrounding future pension obligations; (iv) fair values of share-based compensation and of financial instruments (including derivative financial instruments); (v) evaluations of uncertain tax positions; (vi) estimates and assumptions used in connection with business combinations; and (vi) future cash flows used to assess and test for impairment of goodwill and long-lived assets, if applicable. Actual results could differ from these estimates.

Revenue. We generate revenue from sales of our semiconductor products to OEMs, electronic manufacturing service providers and distributors. We also generate 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.

For products sold to distributors who are entitled to allowances (generally referred to as "ship and credit rights" within the semiconductor industry), we historically have not, and do not currently have the ability to reliably estimate the effects of these allowances with distributors at the time of sale of product to the distributors. As a result, we defer the related revenue and gross margin on sales to these distributors until the ultimate price is known, which is when the products have been resold to the end customer or are not eligible for return. During the year ended December 31, 2015, we amended certain of our distributor agreements which eliminated ship and credit rights, providing for circumstances under which we can reliably estimate allowances and recognize revenue upon sale to such distributors. Although payment terms vary, most distributor agreements require payment within 30 days.

Sales returns and allowances are estimated based on historical experience. Our OEM customers do not have the right to return our products, other than pursuant to the provisions of our standard warranty. Sales to distributors 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. We review warranty and related claims activities and record provisions, as necessary.

Freight and handling costs are included in the 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.

See Note 2: "Significant Accounting Policies" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information with respect to revenue recognition.

Inventories. We carry our inventories at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market and record provisions for potential excess and obsolete inventories based upon a regular analysis of inventory on hand compared to historical and projected end-user demand. These provisions can influence our results from operations. For example, when demand falls for a given part, all or a portion of the related inventory that is considered to be in excess of anticipated demand is reserved, impacting our cost of revenues and gross profit. If demand recovers and the parts previously reserved are sold, we will generally recognize a higher than normal margin. However, the majority of product inventory that has been previously reserved is ultimately discarded. Although we do sell some products that have previously been written down, such sales have historically been relatively consistent on a quarterly basis and the related impact on our margins has not been material.

Impairment of Long-Lived Assets. We evaluate the recoverability of the carrying amount of our property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be fully recoverable. Impairment is first assessed when the undiscounted expected cash flows derived for an asset group are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset group exceeds its fair value and are recognized in operating results. We continually apply our best judgment when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an impaired asset group. The dynamic economic environment in which we operate and the resulting assumptions used to estimate future cash flows impact the outcome of our impairment tests. In recent years, most of our asset groups that have been impaired consist of assets that were ultimately abandoned, sold or otherwise disposed of due to cost reduction activities and the consolidation of our manufacturing facilities. In some instances, these assets have subsequently been sold for amounts higher than their impaired value with related gains recorded in the restructuring, asset impairment and other, net line item in our consolidated statement of operations and disclosed in the footnotes to the financial statements.

Goodwill. We evaluate our goodwill for potential impairment annually during the fourth quarter and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Determining the fair value of our reporting units is subjective in nature and involves the use of significant estimates and assumptions including projected net cash flows, discount and long-term growth rates. We determine the fair value of our reporting units based on an income approach, whereby the fair value of the reporting unit is derived from the present value of estimated future cash flows. Estimates of the future cash flows associated with the businesses are critical to these assessments. The assumptions about future conditions include factors such as future revenues, gross profits, operating expenses, and industry trends. Changes in these estimates based on evolving economic conditions or business strategies could result in material impairment charges in future periods. We consider other valuation methods, such as the cost approach or market approach, if it is determined that these methods provide a more representative approximation of fair value. We base our fair value estimates on assumptions we believe to be reasonable. Actual future results may differ from those estimates. We consider historical rates and current market conditions when determining the discount and growth rates to use in our analysis.

The first step of the goodwill impairment test compares the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets associated with that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets associate with the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the goodwill impairment test in order to determine the implied fair value of the reporting unit’s goodwill. If, during this second step, we determine that the carrying value of a reporting unit’s goodwill exceeds its implied fair value, we would record an impairment loss equal to the difference.

We have determined that our product families, which are components of our operating segments, constitute reporting units for purposes of allocating and testing goodwill. Our product families are one level below the operating segments, constituting individual businesses, with our segment management conducting regular reviews of the operating results for each product family. As of each acquisition date, all goodwill acquired was assigned to the product families that were expected to benefit from the synergies of the respective acquisition. The amount of goodwill assigned to each reporting unit was the difference between the fair value of the acquired business included in a reporting unit and the fair value of identifiable assets and liabilities allocated to the reporting unit as of the acquisition date.

Our next annual test for impairment is expected to be performed on the first day of the fourth quarter of 2016; however, identification of a triggering event may result in the need for earlier reassessments of the recoverability of our goodwill and may result in material impairment charges in future periods.

Defined Benefit Pension Plans and Related Benefits. We maintain defined benefit pension plans covering certain of our non-U.S. employees. For financial reporting purposes, net periodic pension costs and estimated withdrawal liabilities are determined based upon a number of actuarial assumptions, including discount rates for plan obligations, assumed rates of return on pension plan assets and assumed rates of compensation increase for employees participating in the plans. These assumptions are based upon management's judgment and consultation with actuaries, considering all known trends and uncertainties. Actual results that differ from these assumptions impact the expense recognition and cash funding requirements of our pension plans. As of December 31, 2015, a one percentage point change in the discount rate utilized to determine our continuing foreign pension liabilities and expense for our continuing foreign defined benefit plans would have impacted our results by approximately $6.9 million.

Contingencies. We are involved in a variety of legal matters that arise in the normal course of business. Based on the available information, we evaluate the relevant range and likelihood of potential outcomes and we record the appropriate liability when the amount is deemed probable and reasonably estimable.

For a further listing and discussion of our accounting policies, see Note 2: "Significant Accounting Policies" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K.

Income Taxes. Income taxes are accounted for using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for those deferred tax assets for which we cannot conclude that it is more likely than not that such deferred tax assets will be realized.

In determining the amount of the valuation allowance, estimated future taxable income, as well as feasible tax planning strategies for each taxing jurisdiction are considered. If we determine it is more likely than not that all or a portion of the remaining deferred tax assets will not be realized, the valuation allowance will be increased with a charge to income tax expense. Conversely, if we determine it is more likely than not to be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be recorded as a reduction to income tax expense.

We recognize and measure benefits for uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that is it more likely than not that the tax positions will be sustained upon audit, including resolution of any related appeals or litigation processes. For tax positions that are more likely than not to be sustained upon audit, the second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. Significant judgment is required to evaluate uncertain tax positions. Evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of tax audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in income tax expense in the period in which the change is made, which could have a material impact our effective tax position. See Note 15: "Income Taxes" of the notes to our audited consolidated financial statements included elsewhere in this Form 10-K for additional information. See also Part II, Item 7 "Management's Discussion and Analysis - Results of Operations - Income Tax Provision (Benefit)" for additional information.

Recent Accounting Pronouncements

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

Item 7A. ***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 December 31, 2015, our long-term debt (including current maturities) totaled $1,393.9 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $1,006.9 million. We do have interest rate exposure with respect to the $387.0 million balance on our variable interest rate debt outstanding as of December 31, 2015. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next twelve months by approximately $1.9 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.

The debt that we expect to incur in connection with the Fairchild Transaction will bear interest based on floating rate indices or, in the event of the issuance of any debt securities, at fixed rates to be determined at the time of issuance based on prevailing market conditions.

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 assure 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 currency contracts at December 31, 2015 and 2014 was $89.8 million and $145.7 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, Malaysian Ringgit, Philippines Peso, Singapore dollars, Swiss Francs, Chinese Renminbi, and Czech Koruna. Due to the