
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended July 4, 2014
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission File Number 001-35184

FREESCALE SEMICONDUCTOR, LTD.

(Exact name of registrant as specified in its charter)

BERMUDA

(Jurisdiction)

6501 William Cannon Drive West

Austin, Texas

(Address of principal executive offices)

98-0522138

(I.R.S. Employer Identification No.)

78735

(Zip Code)

(512) 895-2000

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|-------------------------|------------------------------------------------------------------------|---------------------------|--------------------------|
| Large Accelerated Filer | <input checked="" type="checkbox"/> | Accelerated Filer | <input type="checkbox"/> |
| Non-Accelerated Filer | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |

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

As of July 21, 2014 there were 303,790,994 shares of the registrant's common shares outstanding.

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PART I

Item 1. Financial Statements (Unaudited)

Freescal Semiconductor, Ltd. Condensed Consolidated Statements of Operations (Unaudited)

| | Three Months Ended | | Six Months Ended | |
|----------------------------------------------------------|--------------------|------------------|------------------|------------------|
| | July 4, 2014 | June 28, 2013 | July 4, 2014 | June 28, 2013 |
| (in millions, except per share amounts) | | | | |
| Net sales | \$ 1,191 | \$ 1,038 | \$ 2,318 | \$ 2,019 |
| Cost of sales | 654 | 597 | 1,276 | 1,180 |
| Gross margin | 537 | 441 | 1,042 | 839 |
| Selling, general and administrative | 128 | 115 | 254 | 226 |
| Research and development | 219 | 187 | 429 | 369 |
| Amortization expense for acquired intangible assets | 4 | 4 | 7 | 7 |
| Reorganization of business and other | 6 | 10 | 17 | 8 |
| Operating earnings | 180 | 125 | 335 | 229 |
| Loss on extinguishment or modification of long-term debt | — | (59) | (59) | (81) |
| Other expense, net | (83) | (125) | (186) | (245) |
| Earnings (loss) before income taxes | 97 | (59) | 90 | (97) |
| Income tax expense | 11 | 6 | 27 | 16 |
| Net earnings (loss) | \$ 86 | \$ (65) | \$ 63 | \$ (113) |
| Net earnings (loss) per share: | | | | |
| Basic | \$ 0.28 | \$ (0.25) | \$ 0.22 | \$ (0.44) |
| Diluted | \$ 0.28 | \$ (0.25) | \$ 0.21 | \$ (0.44) |
| Weighted average common shares outstanding: | | | | |
| Basic | 303 | 255 | 291 | 254 |
| Diluted | 308 | 259 | 296 | 257 |

See accompanying notes.

Freescale Semiconductor, Ltd.
Condensed Consolidated Statements of Comprehensive Earnings (Loss)
(Unaudited)

| (in millions) | Three Months Ended | | Six Months Ended | |
|--------------------------------------------------------------------------|--------------------|------------------|------------------|------------------|
| | July 4, 2014 | June 28, 2013 | July 4, 2014 | June 28, 2013 |
| Net earnings (loss) | \$ 86 | \$ (65) | \$ 63 | \$ (113) |
| Other comprehensive earnings (loss), net of tax: | | | | |
| Foreign currency translation adjustments | — | — | — | (4) |
| Derivative instruments adjustments: | | | | |
| Unrealized gains (losses) arising during the period | 3 | (5) | 6 | (6) |
| Reclassification adjustment for items included in net earnings (loss) | 1 | (1) | 2 | (1) |
| Post-retirement adjustments: | | | | |
| Gains arising during the period | — | — | — | 2 |
| Amortization of actuarial (losses) gains included in net earnings (loss) | (1) | — | (1) | 1 |
| Other comprehensive earnings (loss) | 3 | (6) | 7 | (8) |
| Comprehensive earnings (loss) | \$ 89 | \$ (71) | \$ 70 | \$ (121) |

See accompanying notes.

Freescale Semiconductor, Ltd.
Condensed Consolidated Balance Sheets

| (in millions) | July 4, 2014 (unaudited) | December 31, 2013 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 744 | \$ 747 |
| Accounts receivable, net | 583 | 388 |
| Inventory, net | 701 | 733 |
| Other current assets | 158 | 127 |
| Total current assets | 2,186 | 1,995 |
| Property, plant and equipment, net | 707 | 681 |
| Intangible assets, net | 59 | 52 |
| Other assets, net | 313 | 319 |
| Total assets | <u>\$ 3,265</u> | <u>\$ 3,047</u> |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| <i>Liabilities:</i> | | |
| Current portion of long-term debt and capital lease obligations | \$ 35 | \$ 93 |
| Accounts payable | 438 | 398 |
| Accrued liabilities and other | 379 | 371 |
| Total current liabilities | 852 | 862 |
| Long-term debt | 5,750 | 6,386 |
| Other liabilities | 391 | 393 |
| Total liabilities | 6,993 | 7,641 |
| <i>Shareholders' deficit:</i> | | |
| Preferred shares, par value \$0.01 per share; 100 shares authorized, no shares issued and outstanding at July 4, 2014 and December 31, 2013 | — | — |
| Common shares, par value \$0.01 per share; 900 shares authorized, 304 and 258 issued and outstanding at July 4, 2014 and December 31, 2013, respectively | 3 | 3 |
| Additional paid-in capital | 9,122 | 8,326 |
| Accumulated other comprehensive earnings | 56 | 49 |
| Accumulated deficit | (12,909) | (12,972) |
| Total shareholders' deficit | (3,728) | (4,594) |
| Total liabilities and shareholders' deficit | <u>\$ 3,265</u> | <u>\$ 3,047</u> |

See accompanying notes.

Freescale Semiconductor, Ltd.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| (in millions) | Six Months Ended | |
|---------------------------------------------------------------------------------------------|------------------|------------------|
| | July 4, 2014 | June 28, 2013 |
| Cash flows from operating activities: | | |
| Net earnings (loss) | \$ 63 | \$ (113) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 132 | 137 |
| Reorganization of business and other | 17 | 8 |
| Share-based compensation | 34 | 24 |
| Excess tax benefits from share-based compensation plans | (5) | — |
| Deferred incomes taxes | 7 | 12 |
| Loss on extinguishment or modification of long-term debt, net | 59 | 81 |
| Deferred intellectual property revenue | — | (36) |
| Other non-cash items | 3 | 16 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (200) | (22) |
| Inventory, net | 47 | 59 |
| Accounts payable and accrued liabilities | 34 | (21) |
| Other operating assets and liabilities | (47) | (6) |
| Net cash provided by operating activities | 144 | 139 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (112) | (62) |
| Acquisitions and strategic investment activity | (11) | (1) |
| Proceeds from the sale of property, plant and equipment | — | 6 |
| Payments for purchased licenses and other assets | (44) | (34) |
| Net cash used for investing activities | (167) | (91) |
| Cash flows from financing activities: | | |
| Retirements of and payments for long-term debt and capital lease obligations ⁽¹⁾ | (1,333) | (3,214) |
| Debt issuance proceeds, net of debt issuance costs ⁽¹⁾ | 590 | 3,200 |
| Proceeds from equity offering, net of offering costs | 717 | — |
| Proceeds from stock option exercises and ESPP share purchases | 39 | 46 |
| Excess tax benefits from share-based compensation plans | 5 | — |
| Net cash provided by financing activities | 18 | 32 |
| Effect of exchange rate changes on cash and cash equivalents | 2 | (6) |
| Net (decrease) increase in cash and cash equivalents | (3) | 74 |
| Cash and cash equivalents, beginning of period | 747 | 711 |
| Cash and cash equivalents, end of period | \$ 744 | \$ 785 |

(1) As discussed in Note 4, "Debt," Freescale Inc. issued a \$2.7 billion term loan in the first quarter of 2014, of which \$2.1 billion was a non-cash exchange with existing lenders and is not reflected in the above presentation.

See accompanying notes.

Freescal Semiconductor, Ltd.
Notes to the Unaudited Condensed Consolidated Financial Statements
(Dollars in millions, except as noted)

(1) Overview and Basis of Presentation

Overview: Freescal Semiconductor, Ltd. ("Freescal Ltd."), based in Austin, Texas, is a global leader in microcontrollers and digital networking processors, commonly referred to as embedded processors. Embedded processors are the backbone of electronic systems, providing essential control and intelligence, while enhancing performance and power efficiency. We combine our embedded processors with our complementary analog, sensor and radio frequency (RF) devices, as well as a full suite of software and design tools, to provide highly integrated embedded processing solutions that streamline customer development efforts, lower their costs and shorten their time to market.

We provide our customers embedded processing solutions for the automotive, networking, industrial and consumer markets. A number of trends are driving growth in our end markets, including advances in automotive safety and electronics, the expansion of cloud computing, the build out of next generation communications infrastructure, and the Internet of Things, an emerging network of smart devices designed to help make our lives safer and more productive. Our product and strategic focus is on serving the need for increased connectivity and enhanced intelligence critical to these fast growing semiconductor applications.

We have a heritage of innovation and product leadership spanning over 50 years that has resulted in an extensive intellectual property portfolio. We leverage our intellectual property portfolio, deep customer relationships built over many years of close collaboration, extensive suite of software and design tools and technical expertise to introduce innovative new products and platform-level solutions for our target markets. We believe our ability to leverage our intellectual property across product lines and target markets enables us to be early to market with our products. As a result, we have established leadership positions in many of our core markets. We sell our products directly to original equipment manufacturers, distributors, original design manufacturers and contract manufacturers. Freescal Ltd. and its wholly-owned subsidiaries, including Freescal Semiconductor, Inc. ("Freescal Inc."), are collectively referred to as the "Company," "Freescal," "we," "us" or "our," as the context requires.

On February 18, 2014, we completed an equity issuance in which we sold 40,250,000 of our common shares, including the exercise of the underwriters' option, at a public offering price of \$18.50 per share (the "Q1 2014 Equity Offering"). The net proceeds of this offering were approximately \$717 million, after deducting the costs directly attributable to the transaction including underwriters' discounts and commissions and offering expenses. We contributed the net proceeds to Freescal Inc. to redeem, along with cash on hand, an aggregate of approximately \$680 million in outstanding indebtedness and to pay approximately \$38 million in call premiums associated with the debt extinguishment. (Refer to Note 4, "Debt," for further discussion of the redemption and related transactions referenced in this section.)

Basis of Presentation: The accompanying condensed consolidated financial statements for Freescal Ltd. as of July 4, 2014 and December 31, 2013, and for the three and six months ended July 4, 2014 and June 28, 2013 are unaudited, with the December 31, 2013 amounts included herein derived from the audited consolidated financial statements. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the financial position, results of operations and cash flows as of July 4, 2014 and for all periods presented. Certain amounts reported in previous periods have been reclassified to conform to the current period presentation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our December 31, 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 10, 2014 (the "Annual Report"). The results of operations for the three and six months ended July 4, 2014 are not necessarily indicative of the operating results to be expected for the full year.

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates. In addition to the items described below, our significant accounting policies and critical estimates are disclosed in our Annual Report. Refer to "Significant Accounting Policies and Critical Estimates" within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report for more information.

Recent Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance. This ASU is based on the principle that revenue

is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The amendments in the ASU must be applied using one of two retrospective methods and are effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. We will evaluate the effects, if any, adoption of this guidance will have on our consolidated financial statements.

(2) Other Financial Data

Statements of Operations Supplemental Information

Loss on Extinguishment or Modification of Long-Term Debt

During the first half of 2014, we recorded charges totaling \$59 million in the Condensed Consolidated Statement of Operations associated with the extinguishment of debt and the amendments to our senior secured credit facilities. These charges consisted of call premiums, the write-off of unamortized debt issuance costs and original issue discount ("OID") associated with the extinguished debt and other expenses not eligible for capitalization in accordance with ASC Subtopic 470-50, "Modifications and Extinguishments" ("ASC Subtopic 470-50"). (Refer to Note 4, "Debt," for discussion of the transactions referenced in this section.)

During the second quarter and first half of 2013, we recorded charges of \$59 million and \$81 million, respectively, in the Condensed Consolidated Statements of Operations associated with the extinguishment and modification of existing debt and the issuance of secured notes and term loans. These charges consisted of the write-off of unamortized debt issuance costs, OID and other expenses not eligible for capitalization.

Other Expense, Net

The following table displays the amounts comprising other expense, net in the Condensed Consolidated Statements of Operations:

| | Three Months Ended | | Six Months Ended | |
|-----------------------|--------------------|------------------|------------------|------------------|
| | July 4, 2014 | June 28, 2013 | July 4, 2014 | June 28, 2013 |
| Interest expense | \$ (85) | \$ (126) | \$ (190) | \$ (248) |
| Interest income | 3 | 1 | 6 | 2 |
| Interest expense, net | (82) | (125) | (184) | (246) |
| Other, net | (1) | — | (2) | 1 |
| Other expense, net | \$ (83) | \$ (125) | \$ (186) | \$ (245) |

Cash paid for interest was \$71 million and \$195 million during the second quarter and first half of 2014, respectively. Cash paid for interest was \$130 million and \$249 million during the second quarter and first half of 2013, respectively, inclusive of the acceleration of \$12 million of interest payments during the second quarter of 2013 associated with a debt refinancing transaction.

Net Earnings (Loss) Per Share

We calculate earnings per share (EPS) in accordance with ASC Topic 260, "Earnings per Share," using the treasury stock method. Basic EPS is computed based on the weighted average number of common shares outstanding and unissued shares underlying vested restricted share units (RSUs) during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the net earnings of the Company. During the second quarter and first half of 2014, approximately 10 million and 12 million, respectively, and during the second quarter and first half of 2013, approximately 15 million and 24 million, respectively, of the Company's stock options, RSUs and a warrant were excluded from the calculation of diluted EPS because the inclusion of these awards would have been anti-dilutive. These awards could be dilutive in the future if the average estimated fair value of the common shares increases and is greater than the exercise price of these awards and the assumed repurchases of shares under the treasury stock method.

The following is a reconciliation of the numerators and denominators of the basic and diluted net earnings (loss) per common share computations for the periods presented:

| (in millions, except per share amounts) | Three Months Ended | | Six Months Ended | |
|------------------------------------------------------------------------------------|--------------------|------------------|------------------|------------------|
| | July 4, 2014 | June 28, 2013 | July 4, 2014 | June 28, 2013 |
| Basic net earnings (loss) per share: | | | | |
| <i>Numerator:</i> | | | | |
| Net earnings (loss) | \$ 86 | \$ (65) | \$ 63 | \$ (113) |
| <i>Denominator:</i> | | | | |
| Weighted average common shares outstanding ⁽¹⁾ | 303 | 255 | 291 | 254 |
| Basic net earnings (loss) per share | \$ 0.28 | \$ (0.25) | \$ 0.22 | \$ (0.44) |
| Diluted net earnings (loss) per share: | | | | |
| <i>Numerator:</i> | | | | |
| Net earnings (loss) | \$ 86 | \$ (65) | \$ 63 | \$ (113) |
| <i>Denominator:</i> | | | | |
| Number of shares used in basic computation ⁽¹⁾ | 303 | 255 | 291 | 254 |
| <i>Add:</i> Incremental shares for dilutive effect of warrants ⁽²⁾ | — | — | — | — |
| <i>Add:</i> Incremental shares for dilutive effect of stock options ⁽³⁾ | 2 | 3 | 2 | 3 |
| <i>Add:</i> Incremental shares for dilutive effect of unvested RSUs ⁽⁴⁾ | 3 | 1 | 3 | — |
| Adjusted weighted average common shares outstanding | 308 | 259 | 296 | 257 |
| Diluted net earnings (loss) per share ⁽⁵⁾ | \$ 0.28 | \$ (0.25) | \$ 0.21 | \$ (0.44) |

- (1) Weighted average common shares outstanding includes outstanding common shares of the Company and unissued common shares underlying vested RSUs. The increase in weighted average common shares outstanding during the comparable periods is largely the result of the Q1 2014 Equity Issuance.
- (2) A warrant to purchase an aggregate of 10 million common shares at \$36.12 per share was outstanding during all periods presented but was not included in the computation of diluted EPS because the warrant's exercise price was greater than the average fair market value of the common shares.
- (3) Stock options to purchase an aggregate of less than 1 million and 2 million common shares that were outstanding during the second quarter and first half of 2014, respectively, and 4 million and 6 million common shares that were outstanding during the second quarter and first half of 2013, respectively, were anti-dilutive and were not included in the computation of diluted EPS because the exercise price was greater than the average fair market value of the common shares or the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense, potential windfall tax benefits and exercise prices was greater than the weighted average number of shares underlying outstanding stock options.
- (4) Unvested RSUs of 1 million and 8 million for the second quarter and first half of 2013, respectively, were anti-dilutive and were not included in the computation of diluted EPS because the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense and potential windfall tax benefits was greater than the weighted average number of outstanding unvested RSUs. There were no unvested RSUs that were anti-dilutive during the second quarter or first half of 2014.
- (5) No dilutive securities have been included in the diluted net loss per share calculations in periods when a net loss was incurred.

Balance Sheets Supplemental Information

Inventory, Net

Inventory, net consisted of the following:

| | July 4, 2014 | December 31, 2013 |
|-----------------------------------|-----------------|----------------------|
| Work in process and raw materials | \$ 499 | \$ 497 |
| Finished goods | 202 | 236 |
| Inventory, net | <u>\$ 701</u> | <u>\$ 733</u> |

As of July 4, 2014 and December 31, 2013, we had \$51 million and \$61 million, respectively, in reserves for inventory deemed obsolete or in excess of forecasted demand. If actual future demand or market conditions are less favorable than those projected by our management, additional inventory write-downs may be required.

Property, Plant and Equipment, Net

Depreciation and amortization expense was \$42 million and \$85 million during the second quarter and first half of 2014, respectively, and \$46 million and \$91 million during the second quarter and first half of 2013, respectively. Accumulated depreciation and amortization was \$2,810 million and \$2,774 million at July 4, 2014 and December 31, 2013, respectively.

Accumulated Other Comprehensive Earnings

| | Unrealized (Losses) Gains on Derivatives | Unrealized Gains (Losses) on Post-retirement Obligations | Foreign Currency Translation | Total |
|----------------------------|---------------------------------------------------|-------------------------------------------------------------------|---------------------------------|-------|
| Balance at January 1, 2014 | \$ (6) | \$ 36 | \$ 19 | \$ 49 |
| Current period net change | 8 | (1) | — | 7 |
| Balance at July 4, 2014 | \$ 2 | \$ 35 | \$ 19 | \$ 56 |

(3) Fair Value Measurement

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are market inputs participants would use in valuing the asset or liability and are developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect management's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – quoted prices for similar assets and liabilities in active markets or inputs that are observable; and,

Level 3 – inputs that are unobservable (for example, cash flow modeling inputs based on assumptions).

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

We measure cash and cash equivalents, derivative contracts and certain other assets and liabilities, as required, at fair value on a recurring basis. The tables below set forth, by level, the fair value of these assets and liabilities as of July 4, 2014 and December 31, 2013, respectively. The table does not include assets and liabilities which are measured at historical cost or on any basis other than fair value. In the first half of 2014 and 2013, there were no transfers between Level 1 and Level 2. We had no Level 3 instruments at December 31, 2013.

| As of July 4, 2014 | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|------------------------------------------------------|--------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Assets | | | | |
| Time deposits ⁽¹⁾ | \$ 338 | \$ 338 | \$ — | \$ — |
| Money market mutual funds ⁽¹⁾ | 62 | 62 | — | — |
| Foreign currency derivative contracts ⁽²⁾ | 3 | — | 3 | — |
| Interest rate swap agreements ⁽³⁾ | 1 | — | 1 | — |
| Total assets | \$ 404 | \$ 400 | \$ 4 | \$ — |
| Liabilities | | | | |
| Foreign currency derivative contracts ⁽²⁾ | \$ 1 | \$ — | \$ 1 | \$ — |
| Interest rate swap agreements ⁽³⁾ | 5 | — | 5 | — |
| Contingent consideration ⁽⁴⁾ | 2 | — | — | 2 |
| Total liabilities | \$ 8 | \$ — | \$ 6 | \$ 2 |

| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs |
|------------------------------------------------------|--------|---------------------------------------------------------------|----------------------------------------------|
| As of December 31, 2013 | Total | (Level 1) | (Level 2) |
| Assets | | | |
| Time deposits ⁽¹⁾ | \$ 339 | \$ 339 | \$ — |
| Money market mutual funds ⁽¹⁾ | 5 | 5 | — |
| Foreign currency derivative contracts ⁽²⁾ | 2 | — | 2 |
| Interest rate swap agreements ⁽³⁾ | 1 | — | 1 |
| Total assets | \$ 347 | \$ 344 | \$ 3 |
| Liabilities | | | |
| Foreign currency derivative contracts ⁽²⁾ | \$ 5 | \$ — | \$ 5 |
| Interest rate swap agreements ⁽³⁾ | 6 | — | 6 |
| Commodity derivative contracts ⁽⁵⁾ | 3 | — | 3 |
| Total liabilities | \$ 14 | \$ — | \$ 14 |

The following footnotes indicate where the noted items are reported in our Condensed Consolidated Balance Sheets at July 4, 2014 and December 31, 2013:

- (1) Time deposits and money market mutual funds are reported as cash and cash equivalents. Funds invested in money market mutual funds increased from December 31, 2013 to July 4, 2014 to maximize the combination of fee offsets on bank account holdings and interest income.
- (2) Foreign currency derivative contracts are reported as other current assets or accrued liabilities and other.
- (3) Interest rate swap arrangements are reported as current assets, accrued liabilities and other or other liabilities.
- (4) Contingent consideration is reported as an accrued liability.
- (5) Commodity derivative contracts are reported as other current assets and accrued liabilities and other. The total fair value of our commodity derivatives at July 4, 2014 was a net obligation of less than \$1 million.

The following table summarizes the change in the fair value for instruments with Level 3 inputs for the six months ended July 4, 2014:

| | Level 3 Inputs |
|----------------------------------------------|----------------|
| Balance as of January 1, 2014 | \$ — |
| Acquisition-related contingent consideration | 2 |
| Balance as of July 4, 2014 | \$ 2 |

Valuation Methodologies

In determining the fair value of our interest rate swap derivatives, we use the present value of expected cash flows based on market observable interest rate yield curves commensurate with the term of each instrument. For foreign currency and commodity derivatives, our approach is to use forward contract valuation models employing market observable inputs, such as spot and forward rates for currencies and commodities. Since we only use observable inputs in our valuation of our derivative assets and liabilities, they are considered Level 2. Refer to Note 5, "Risk Management," for further information on our foreign currency and commodity derivative contracts and our interest rate swap agreements. The fair value of the contingent consideration is based on the expected contractual cash flows due as a result of a business acquisition completed during the second quarter of 2014, which we expect to pay during the first half of 2015.

Fair Value of Other Financial Instruments

In addition to the assets and liabilities described above, our financial instruments also include accounts receivable, other investments, accounts payable, accrued liabilities and long-term debt. Except for the fair value of our long-term debt, which was approximately \$5,944 million, exclusive of \$35 million of current maturities, at July 4, 2014, and approximately \$6,566 million, exclusive of \$93 million of current maturities, at December 31, 2013 (as determined based upon quoted market prices), the fair values of these financial instruments were not materially different from their carrying or contract values on those dates.

(4) Debt

The carrying value of our long-term debt at July 4, 2014 and December 31, 2013 consisted of the following:

| | July 4, 2014 | December 31, 2013 |
|-----------------------------------------------|-----------------|----------------------|
| 2016 Term Loan | \$ — | \$ 347 |
| 2020 Term Loan | — | 2,349 |
| Amended 2020 Term Loan | 2,686 | — |
| 2021 Term Loan | 786 | 790 |
| 2019 Revolver | — | — |
| Senior secured 5.00% notes due 2021 | 500 | 500 |
| Senior secured 6.00% notes due 2022 | 960 | 960 |
| Senior unsecured floating rate notes due 2014 | — | 57 |
| Senior unsecured 10.75% notes due 2020 | 473 | 473 |
| Senior unsecured 8.05% notes due 2020 | 380 | 739 |
| Senior subordinated 10.125% notes due 2016 | — | 264 |
| Total debt | 5,785 | 6,479 |
| Less: current maturities | (35) | (93) |
| Total long-term debt | <u>\$ 5,750</u> | <u>\$ 6,386</u> |

First Quarter of 2014 Revolver Amendment and Debt Redemption Transactions

On February 10, 2014, Freescale Inc. entered into an amendment to its existing revolving credit facility which became effective on February 18, 2014 (the "Q1 2014 Revolver Amendment"). Pursuant to the amendment, the existing revolving credit facility was replaced with a new revolving credit facility with an aggregate of \$400 million of commitments (the "2019 Revolver"). The amendment also extends the maturity of the new revolving credit facility to February 1, 2019. Except as described above, the 2019 Revolver is subject to substantially the same terms and conditions as the existing revolving credit facility, including the same pro rata split between United States Dollar availability and alternative currency availability.

On March 20, 2014, after the requisite notice period, Freescale Inc. utilized approximately \$717 million of net proceeds from the Q1 2014 Equity Offering, which were contributed to Freescale Inc. by Freescale Ltd. and certain of its subsidiaries, along with cash on hand, to redeem (i) the remaining \$264 million of senior subordinated 10.125% notes due 2016, (ii) the remaining \$57 million of senior unsecured floating rate notes due 2014 and (iii) \$359 million of the outstanding principal amount of the senior unsecured 8.05% notes due 2020 (the "8.05% Unsecured Notes") and to pay call premiums of \$38 million and accrued interest of \$11 million. Because cash proceeds were used for the redemption of debt, which relieved Freescale Inc., Freescale Ltd. and certain other Freescale Ltd. subsidiaries of their obligations associated with the aforementioned liabilities outstanding under these notes, the transaction was accounted for as an extinguishment of debt in accordance with ASC Subtopic 470-50.

In connection with these transactions, we recorded a charge of \$48 million in the Condensed Consolidated Statement of Operations during the first half of 2014 comprised of call premiums totaling \$38 million along with the write-off of unamortized debt issuance costs and other expenses not eligible for capitalization under ASC Topic 470-50 totaling \$10 million.

First Quarter of 2014 Term Loan Refinancing Transaction

On March 4, 2014, Freescale, Inc. entered into an amendment and refinancing agreement to its senior secured term loan facilities, which effectively (i) lowered the interest rate of our existing \$347 million senior secured term loan facility maturing in December 2016 (the "2016 Term Loan"), (ii) extended the maturity of the 2016 Term Loan to March 2020 to coincide with the maturity of its existing \$2.37 billion senior secured term loan facility maturing in March 2020 (the "2020 Term Loan") and (iii) lowered the interest rate applicable to the 2020 Term Loan. This transaction was referred to as the "Q1 2014 Term Loan Refinancing Transaction."

In connection with this transaction, (i) a portion of the existing lenders under the 2016 Term Loan agreed to the lower interest rate and extended maturity, (ii) a portion of the existing lenders under the 2020 Term Loan agreed to the lower interest rate, and (iii) Freescale used the proceeds of new senior secured term loans to refinance in full the 2016 Term Loan lenders and the 2020 Term Loan lenders who did not agree to the amendment. As a result, the amended 2016 Term Loan, the amended 2020 Term Loan and the new senior secured term loans, now have identical terms and will be treated as a single tranche of senior secured term loans with an initial aggregate principal amount of \$2.72 billion, collectively referred to as the "Amended 2020 Term Loan." (Refer to further discussion of the key terms of this instrument described in the Credit Facility discussion below.)

The Amended 2020 Term Loan was issued at par, but was originally recorded at a \$21 million discount, reflecting a portion of the remaining OID previously attributable to the 2020 Term Loan which was deemed exchanged for the Amended 2020 Term Loan. A portion of the proceeds from the issuance of the Amended 2020 Term Loan was used to prepay portions of the 2016 and 2020 Term Loans, thus relieving Freescale Inc., Freescale Ltd. and certain other Freescale Ltd. subsidiaries of their obligations associated with that liability. This portion of the Q1 2014 Term Loan Refinancing Transaction constitutes an extinguishment of debt under ASC Subtopic 470-50 and was accounted for accordingly. A significant portion of our lenders under the Amended 2020 Term Loan were lenders under the 2016 and 2020 Term Loans. Effectively, these lenders exchanged a portion of the previous loans for the Amended 2020 Term Loan. This portion of the transaction was accounted for as an exchange that is a non-substantial modification of debt under ASC Subtopic 470-50, as the difference between the present value of the cash flows under the Amended 2020 Term Loan and the present value of the cash flows under each of the 2016 and 2020 Term Loans held by these lenders was less than 10%. A portion of the Amended 2020 Term Loan related to new funds committed and was accounted for as a new debt issuance.

In connection with this transaction, we incurred approximately \$6 million of fees and expenses, of which \$1 million was capitalized and will be amortized over the term of the Amended 2020 Term Loan. We recorded a charge of \$11 million in the Condensed Consolidated Statement of Operations during the first half of 2014 associated with this transaction, which consisted of the write-off of unamortized debt issuance costs, OID and other expenses not eligible for capitalization under ASC Subtopic 470-50.

Credit Facility

At July 4, 2014, Freescale Inc.'s senior secured credit facilities (the "Credit Facility") included (i) the Amended 2020 Term Loan, (ii) the senior secured term loan facility maturing in 2021 (the "2021 Term Loan") and (iii) the 2019 Revolver, including letters of credit and swing line loan sub-facilities, with a committed capacity of \$400 million. At July 4, 2014, the interest rate on the Amended 2020 Term Loan and the 2021 Term Loan was 4.25% and 5.00%, respectively. The available capacity under the 2019 Revolver was \$384 million, as reduced by \$16 million of outstanding letters of credit at July 4, 2014.

Amended 2020 Term Loan

At July 4, 2014, \$2,706 million was outstanding under the Amended 2020 Term Loan, which will mature on March 1, 2020. The Amended 2020 Term Loan bears interest, at Freescale Inc.'s option, at a rate equal to a spread over either (i) a base rate equal to the higher of either (a) the prime rate of Citibank, N.A. or (b) the federal funds rate, plus one-half of 1%; or (ii) a LIBOR rate based on the cost of funds for deposit in the currency of borrowing for the relevant interest period, adjusted for certain additional costs. The third amended and restated credit agreement as of March 1, 2013 as amended by the Q1 2014 Revolver Amendment and the Q1 2014 Term Loan Refinancing transaction (the "Credit Agreement") governs the terms of the Credit Facility and based on our total leverage ratio provides that the spread over LIBOR with respect to the Amended 2020 Term Loan is 3.25%, with a LIBOR floor of 1.00%. Under the Credit Agreement, Freescale Inc. is required to repay a portion of the Amended 2020 Term Loan in quarterly installments in aggregate annual amounts equal to 1% of the initial balance of the Amended 2020 Term Loan, or \$27 million annually. Additionally, prepayment of the Amended 2020 Term Loan prior to September 4, 2014 is subject to a fee of 1% of the principal amount prepaid. At July 4, 2014, the Amended 2020 Term Loan was recorded on the Condensed Consolidated Balance Sheet at a \$20 million discount which is subject to accretion to par value over the term of the loan using the effective interest method.

2021 Term Loan

At July 4, 2014, \$794 million was outstanding under the 2021 Term Loan, which will mature on January 15, 2021. The 2021 Term Loan bears interest, at Freescale Inc.'s option, at a rate equal to a spread over either (i) a base rate equal to the higher of either (a) the prime rate of Citibank, N.A. or (b) the federal funds rate, plus one-half of 1%; or (ii) a LIBOR rate based on the cost of funds for deposit in the currency of borrowing for the relevant interest period, adjusted for certain additional costs. Based on our total leverage ratio, the Credit Agreement provides that the spread over LIBOR with respect to the 2021 Term Loan is 3.75%, with a LIBOR floor of 1.25%. Under the Credit Agreement, Freescale Inc. is required to repay a portion of the 2021 Term Loan in quarterly installments in aggregate annual amounts equal to 1% of the initial outstanding balance, or \$8 million annually. Additionally, prepayment of the 2021 Term Loan is subject to a fee of 1% of the principal amount prepaid until September 11, 2014. At July 4, 2014, the 2021 Term Loan was recorded on the Condensed Consolidated Balance Sheet at an \$8 million discount which is subject to accretion to par value over the term of the loan using the effective interest method.

The obligations under the Credit Agreement are unconditionally guaranteed by the same parties and in the same manner as under the credit agreement that was in effect prior to the Q1 2014 Revolver Amendment and the Q1 2014 Term Loan Refinancing Transaction.

Senior Notes

Freescale Inc. had an aggregate principal amount of \$2,313 million in senior notes outstanding at July 4, 2014, consisting of (i) \$500 million of 5.00% senior secured notes due 2021 ("5.00% Secured Notes"), (ii) \$960 million of 6.00% senior secured notes due 2022 ("6.00% Secured Notes"), (iii) \$473 million of 10.75% senior unsecured notes due 2020 ("10.75% Unsecured Notes") and (iv) \$380 million of 8.05% Unsecured Notes (collectively, the "Senior Notes"). With regard to these notes, interest is payable semi-annually in arrears as follows: (i) every May 15th and November 15th for the 5.00% Secured Notes; (ii) every May 15th and November 15th for the 6.00% Secured Notes; (iii) every February 1st and August 1st for the 10.75% Unsecured Notes; and (iv) every February 1st and August 1st for the 8.05% Unsecured Notes.

Covenant Compliance

The Credit Agreement and the indentures governing the senior secured and senior unsecured notes (the "Indentures") contain restrictive covenants that limit the ability of our subsidiaries to, among other things, incur or guarantee additional indebtedness or issue preferred shares, pay dividends and make other restricted payments, impose limitations on the ability of our restricted subsidiaries to pay dividends or make other distributions, create or incur certain liens, make certain investments, transfer or sell assets, engage in transactions with affiliates and merge or consolidate with other companies or transfer all or substantially all of our assets. Under the Credit Agreement and Indentures, Freescale Inc. must comply with conditions precedent that must be satisfied prior to any borrowing.

As of July 4, 2014, Freescale Inc. was in compliance with the covenants under the Credit Facility and the Indentures and met the fixed charge coverage ratio of 2.00:1 or greater and the total leverage ratio of 6.50:1 or lower but did not meet the senior secured first lien leverage ratio of 4.00:1 or lower or the consolidated secured debt ratio of 3.25:1 or lower. As of July 4, 2014, Freescale Inc.'s fixed charge coverage ratio was 3.08:1, total leverage ratio was 5.10:1, senior secured first lien leverage ratio was 4.22:1 and consolidated secured debt ratio was 4.97:1. Accordingly, we are currently restricted from making certain investments and incurring liens on assets securing indebtedness, except as otherwise permitted by the Credit Agreement and Indentures. The fact that we do not meet some of these ratios does not result in any default under the Credit Agreement or the Indentures.

Hedging Transactions

Freescale Inc. has previously entered into interest rate swap agreements and interest rate cap agreements with various counterparties as a hedge of the variable cash flows of our variable interest rate debt. In connection with the refinancing transaction in the first quarter of 2013, under which the majority of our debt essentially became fixed rate debt as long as LIBOR rates remain below the respective LIBOR floors on our variable rate term loans, we effectively terminated all of these agreements. (Refer to Note 5, "Risk Management," for further details of these hedging agreements.)

Debt Service

We are required to make debt service principal payments under the terms of our debt agreements. As of July 4, 2014, future obligated debt payments are \$18 million during the remainder of 2014, \$35 million in 2015, \$35 million in 2016, \$35 million in 2017, \$35 million in 2018, \$35 million in 2019 and \$5,620 million thereafter.

(5) Risk Management

Foreign Currency Risk

The functional currency for all of our foreign operations is the U.S. dollar. Accordingly, exchange rate gains and losses are recognized on transactions in currencies other than the U.S. dollar and included in operations for the period in which the exchange rates changed.

In order to reduce the exposure of our financial results resulting from fluctuations in exchange rates, our principal strategy has been to naturally hedge the foreign currency-denominated liabilities on our balance sheet against corresponding foreign currency-denominated assets such that any changes in liabilities due to fluctuations in exchange rates are inversely offset by changes in their corresponding foreign currency assets. In order to further reduce our exposure to U.S. dollar exchange rate fluctuations, we have entered into foreign currency hedge agreements related to the currency and the amount of expenses we expect to incur in jurisdictions in which our operations are located. No assurance can be given that our hedging transactions will prevent us from incurring higher foreign currency-denominated costs when translated into our U.S. dollar-based accounts in the event of a weakening of the U.S. dollar on the non-hedged portion of our costs and expenses.

At July 4, 2014 and December 31, 2013, we had net outstanding foreign currency exchange contracts not designated as accounting hedges with notional amounts totaling approximately \$102 million and \$112 million, respectively, which are accounted for at fair value. These forward contracts have original maturities of less than three months. The fair value of the forward contracts was a net unrealized gain (loss) of less than \$1 million and \$(1) million at July 4, 2014 and December 31, 2013, respectively. Forward contract gains (losses) of \$1 million for both the second quarter and first half of 2014 and \$1 million and \$(4) million for the second quarter and first half of 2013, respectively, were recorded in other expense, net in the Condensed Consolidated Statements of Operations related to our realized and unrealized results associated with these foreign

exchange contracts. Management believes that these financial instruments will not subject us to undue risk of foreign exchange movements because gains and losses on these contracts should offset losses and gains on the assets and liabilities being hedged. The following table shows, in millions of U.S. dollars, the notional amounts of the most significant net foreign exchange hedge positions for outstanding foreign exchange contracts not designated as accounting hedges as of July 4, 2014 and December 31, 2013:

| Buy (Sell) | July 4, 2014 | December 31, 2013 |
|-------------------|-----------------|----------------------|
| Japanese Yen | \$ 24 | \$ 15 |
| Chinese Renminbi | \$ 22 | \$ 30 |
| Malaysian Ringgit | \$ 20 | \$ 16 |
| Euro | \$ 11 | \$ 29 |
| Indian Rupee | \$ (6) | \$ (5) |

Cash Flow Hedges

We use foreign currency exchange contracts to hedge future expected cash flows associated with net sales, cost of sales, selling, general and administrative expenses and research and development expenses. These forward contracts have original maturities of less than 18 months. The following table shows, in millions of U.S. dollars, the notional amounts of the foreign exchange hedge positions for outstanding foreign exchange contracts designated as cash flow hedges under ASC Topic 815 as of July 4, 2014 and December 31, 2013:

| Buy (Sell) | July 4, 2014 | December 31, 2013 | Hedged Exposure |
|-------------------|-----------------|----------------------|-------------------------------------|
| Malaysian Ringgit | \$ 50 | \$ 80 | Cost of sales |
| Chinese Renminbi | \$ 51 | \$ 93 | Cost of sales |
| | \$ 13 | \$ 23 | Selling, general and administrative |
| | \$ 13 | \$ 23 | Research and development |
| Japanese Yen | \$ 17 | \$ 35 | Cost of sales |
| Euro | \$ (15) | \$ (33) | Net sales |

At July 4, 2014 and December 31, 2013, we had cash flow designated forward contracts with a total fair value of net unrealized gains (losses) of \$1 million and \$(2) million, respectively. (Losses) gains of less than \$(1) million and \$(1) million during the second quarter and first half of 2014, respectively, and \$1 million and \$2 million during the second quarter and first half of 2013, respectively, were recorded in the Condensed Consolidated Statements of Operations related to our realized results associated with these cash flow hedges. Management believes that these financial instruments will not subject us to undue risk of foreign exchange movements because gains and losses on these contracts should offset losses and gains on the forecasted expenses being hedged.

Commodity Price Risk

We operate facilities that consume commodities, and we have established forecasted transaction risk management programs to mitigate fluctuations in the fair value and the volatility of future cash flows caused by changes in commodity prices. These programs reduce, but do not always entirely eliminate, the impact of commodity price movements.

We use gold swap contracts to hedge our exposure to increases in the price of gold and designate such contracts as cash flow hedges under ASC Topic 815. At July 4, 2014 and December 31, 2013, these contracts had net outstanding notional amounts totaling 12,500 ounces and 27,500 ounces, respectively, and are accounted for at fair value. All of these outstanding gold swap contracts have original maturities of 15 months or less. The fair value of these contracts was a net unrealized loss of less than \$1 million and \$3 million at July 4, 2014 and December 31, 2013, respectively. During both the second quarter and first half of 2014, losses of less than \$1 million and during both the second quarter and first half of 2013 losses of \$1 million were recorded in cost of sales related to our realized results attributable to these gold swap contracts. Management believes that these financial instruments will not subject us to undue risk of fluctuations in the price of gold because gains and losses on these swap contracts should offset losses and gains on the forecasted gold wire expense being hedged.

Interest Rate Risk

We have historically used interest rate swap agreements to assist in managing the floating rate portion of our debt portfolio. In connection with the debt refinancing transaction that occurred during the first quarter of 2013, under which the majority of our debt became effectively fixed rate debt as long as LIBOR rates remain below the respective LIBOR floors on our variable rate term loans, we either terminated or, in lieu of terminating the agreements and incurring a penalty, entered into offsetting interest rate swap agreements which resulted in a \$15 million liability to be paid through December 1, 2016, the end

of the original expiration of the interest rate swap agreements. The balance of this obligation at July 4, 2014 was \$10 million, after \$2 million of this liability was paid during the first half of 2014. The change in fair value arising from the offsetting swap agreements along with the existing agreements are recorded in other expense, net in the Condensed Consolidated Statements of Operations.

In the first half of 2013 prior to the termination of the interest rate swap agreements, we recognized a gain of \$1 million in other expense, net in the Condensed Consolidated Statement of Operations associated with the realized results and change in fair value of our interest rate swaps in accordance with ASC Topic 815.

Counterparty Risk

Outstanding financial derivative instruments expose us to credit losses in the event of nonperformance by the counterparties to the agreements. We also enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. The credit exposure related to these financial instruments is represented by the contracts with a positive fair value at the reporting date. On a periodic basis, we review the credit ratings of our counterparties and adjust our exposure as deemed appropriate. As of July 4, 2014, we believe that our exposure to counterparty risk is immaterial.

(6) Share and Equity-based Compensation

2011 Omnibus Incentive Plan

Non-qualified Options

During the first half of 2014, we granted approximately 2.2 million stock options under the 2011 Omnibus Incentive Plan, as amended and restated during the annual shareholder's meeting held on May 8, 2014, (the "2011 Plan") to certain executives and employees. Included in this amount were 2.1 million stock options granted on January 5, 2014 as part of the annual long-term incentive grants ("2014 Annual Grant"). These awards have a grant date fair value of \$6.67 per share and an exercise price of \$15.37 per share, which was equal to the stock price on January 3, 2014, the last trading day before the award date. Total compensation costs associated with the stock options under the 2014 Annual Grant was \$11 million, net of estimated forfeitures.

Pursuant to the 2011 Plan, we have issued approximately 7.1 million non-qualified stock options in Freescale Ltd. ("2011 Options") with exercise prices ranging from \$8.73 to \$23.68 per share, to certain qualified participants, which remain outstanding as of July 4, 2014. The 2011 Options generally vest at a rate of 25% of the total grant on each of the first, second, third and fourth anniversaries of the date of grant, and are subject to the terms and conditions of the 2011 Plan and related award agreements. As of July 4, 2014, we had approximately \$31 million of unamortized expense, net of estimated forfeitures, which is being amortized on a straight-line basis over a period of four years to additional paid-in capital.

The fair value of the 2011 Options was estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used in the model are outlined in the following table:

| | Six Months Ended | |
|--------------------------------------------------|------------------|------------------|
| | July 4, 2014 | June 28, 2013 |
| Weighted average grant date fair value per share | \$ 6.83 | \$ 7.01 |
| Weighted average assumptions used: | | |
| Expected volatility | 49.83% | 60.75% |
| Expected lives (in years) | 4.75 | 4.75 |
| Risk free interest rate | 1.41% | 0.75% |
| Expected dividend yield | —% | —% |

In accordance with ASC Topic 718, the computation of the expected volatility assumptions used in the Black-Scholes calculations for grants was based on historical volatilities and implied volatilities of peer companies. The Company utilized the volatilities of peer companies due to our lack of extensive history as a public company and the fact that our current equity was not publicly traded prior to May 26, 2011. The peer companies operate in the semiconductor industry and are of similar size. When establishing the expected life assumptions, we use the "simplified" method prescribed in ASC Topic 718 for companies that do not have adequate historical data. The risk-free interest rate is measured as the prevailing yield for a U.S. Treasury security with a maturity similar to the expected life assumption.

A summary of changes in the 2011 Options outstanding during the six months ended July 4, 2014 is presented below:

| | Stock Options (in thousands) | Wtd. Avg. Exercise Price Per Share | Wtd. Avg. Remaining Contractual Term (Years) | Aggregate Intrinsic Value (in millions) |
|-------------------------------------|---------------------------------|------------------------------------------|-------------------------------------------------------|-----------------------------------------------|
| Balance at January 1, 2014 | 5,807 | \$ 13.09 | 6 | \$ 17 |
| Granted | 2,229 | \$ 15.79 | | |
| Terminated, canceled or expired | (300) | \$ 14.59 | | |
| Exercised | (678) | \$ 12.52 | | |
| Balance at July 4, 2014 | 7,058 | \$ 13.94 | 6 | \$ 70 |
| Exercisable options at July 4, 2014 | 1,456 | \$ 13.20 | 5 | \$ 16 |

The intrinsic value of options exercised under this plan during the first half of 2014 and 2013 was \$5 million and less than \$1 million, respectively.

Restricted Share Units

During the first half of 2014, we granted approximately 3.9 million RSUs to certain executives and employees under the 2011 Plan. Included in this amount were 3.8 million RSUs granted in connection with the 2014 Annual Grant with a grant date fair value of \$15.37 per RSU and total compensation cost of \$45 million, net of estimated forfeitures. While RSUs generally vest at a rate of 25% of the total grant on the first, second, third and fourth anniversaries of the date of grant, some RSUs vest at a rate of one-third of the total grant on each of the first, second and third anniversaries of the date of grant, or other vesting schedule depending on the award, and are subject to the terms and conditions of the 2011 Plan and related award agreements. RSUs are not entitled to dividends or voting rights, if any, until the underlying common shares are delivered. The fair value of the RSU awards is recognized on a straight-line basis over the vesting period.

Also, in connection with the 2014 Annual Grant, we granted approximately 0.9 million performance-based RSUs ("TSR") to certain executives, which cliff vest on the third anniversary of the date of grant. Each TSR entitles the grant recipient to receive from 0 to 1.50 common shares for each of the target units awarded based on the relative total shareholder return of the Company's share price as compared to a set of peer companies. The Company estimates the fair value of the TSRs using a Monte Carlo valuation model, which includes a modifier for market results. The grant date fair value for the TSRs granted in connection with the Annual Grant was \$15.98 per TSR, and the total compensation cost of \$12 million, net of estimated forfeitures, will be amortized on a straight-line basis over a period of three years to additional paid-in capital. The assumptions, in addition to projections of market results, used in the Monte Carlo model are outlined in the following table:

| | Six Months Ended |
|--------------------------------------------------|------------------|
| | July 4, 2014 |
| Weighted average grant date fair value per share | \$ 15.98 |
| Weighted average assumptions used: | |
| Expected volatility | 48.45% |
| Expected lives (in years) | 2.99 |
| Risk free interest rate | 0.80% |
| Expected dividend yield | —% |

We also have outstanding performance-based RSUs ("PRSUs") that were granted to certain executives of the Company under the 2011 Plan. The PRSUs granted, to the extent earned, vest at a rate of one-third of the total grant on each of the first, second and third anniversaries of the date of grant for certain executives or vest fully on the third anniversary of the date of grant for PRSUs granted to our Chief Executive Officer ("CEO"). The number of common shares underlying each PRSU is contingent on Company performance measured by annual revenue and earnings per share goals established by the Compensation and Leadership Committee of the Board of Directors for each annual performance period. Each PRSU entitles the grant recipient to receive from 0 to 1.50 common shares for certain executives or 0 to 1.0 common shares for PRSUs granted to our CEO based on the Company's achievement of the performance goals for each performance period.

As of July 4, 2014 we had approximately \$97 million of unamortized expense, net of expected forfeitures, which is being amortized on a straight-line basis to additional paid-in capital over a period of three or four years, depending on the award, for RSUs and three years for TSRs and PRSUs. Under the terms of the RSU, TSR and PRSU award agreements, common shares underlying these awards are issued to the participant upon vesting of the award based on the passage of time for the RSUs and based on both the passage of time and performance results for the TSRs and PRSUs.

A summary of changes in the RSUs, TSRs and PRSUs outstanding under the 2011 Plan during the six months ended July 4, 2014 is presented below:

| | RSUs, TSRs and PRSUs (in thousands) | Wtd. Avg. Grant Date Fair Value Per Share |
|---------------------------------------------------------|-------------------------------------------|-------------------------------------------------|
| Non-vested RSU, TSR and PRSU balance at January 1, 2014 | 7,291 | \$ 14.04 |
| Granted | 4,838 | \$ 15.55 |
| Issued | (1,691) | \$ 14.28 |
| Terminated, canceled or expired | (370) | \$ 14.49 |
| Non-vested RSU, TSR and PRSU balance at July 4, 2014 | 10,068 | \$ 14.72 |

The weighted average grant date fair value of all RSUs, TSRs and PRSUs granted during the first half of 2014 and 2013 was \$15.55 per share and \$13.94 per share, respectively. The total intrinsic value of RSUs, TSRs and PRSUs issued under this plan during the first half of 2014 and 2013 was \$41 million and \$9 million, respectively.

2006 Management Incentive Plan and 2007 Employee Incentive Plan

During the first half of 2014, approximately 797 thousand and 258 thousand stock options were exercised under the 2006 Management Incentive Plan and the 2007 Employee Incentive Plan, respectively, with weighted average strike prices of \$6.87 and \$6.40, respectively.

Employee Share Purchase Plan

Upon completion of our initial public offering in 2011, we initiated an Employee Share Purchase Plan ("ESPP"), as amended and restated during the annual shareholder's meeting on May 8, 2014, for which we have approximately 7 million remaining common shares reserved for future issuance. Under the ESPP, eligible participants are allowed to purchase common shares of Freescale through payroll deductions of up to 15% of their compensation on an after-tax basis. The price an employee pays per share is 85% of the fair market value of the common shares on the close of the last trading day of the purchase period. The ESPP has two six-month purchase periods, the first of which begins on January 1 and the second of which begins on July 1. On January 3, 2014, approximately 902 thousand common shares of Freescale were issued to participating employees under the ESPP for the second half of 2013 purchase period at a discounted price of \$13.64 per share. On July 3, 2014, approximately 722 thousand common shares of Freescale were issued to participating employees under the ESPP for the first half of 2014 purchase period at a discounted price of \$19.98 per share. During the first half of 2014 and 2013, we recognized \$3 million and \$2 million, respectively, of compensation costs related to the 15% discount offered under this plan.

(7) Income Taxes

Income taxes for the interim periods presented have been included in the Condensed Consolidated Financial Statements on the basis of an estimated annual effective tax rate. Our effective tax rate is impacted by the mix of earnings and losses by taxing jurisdictions. Although the Company is a Bermuda entity with a statutory income tax rate of zero, the earnings of many of the Company's subsidiaries are subject to taxation in the U.S. and other foreign jurisdictions. We incur minimal income tax expense on our U.S. earnings due to valuation allowances recorded on substantially all the Company's U.S. net deferred tax assets, as we have incurred cumulative losses in the United States.

Due to the decrease in domestic cumulative losses over the past three years, management believes that sufficient positive evidence could become available in the future to reach a conclusion that the U.S. valuation allowance will no longer be needed, in whole or in part. Acceleration of improved operating results or significant taxable income from specific non-recurring transactions could further impact this assessment. The likelihood of realizing the benefit of deferred tax assets and the related need for a valuation allowance is assessed on an ongoing basis. This assessment requires estimates and significant management judgment as to future operating results, as well as an evaluation of the effectiveness of the Company's tax planning strategies. At this time, the Company is not able to reasonably estimate when sufficient positive evidence will require reversal of the valuation allowance or the impact such reversal will have on the Company's effective tax rate.

During the second quarter and first half of 2014, we recorded an income tax provision of \$11 million and \$27 million, respectively, predominately related to our foreign operations. The income tax provision recorded during the second quarter and first half of 2014 included income tax expense of \$2 million and \$6 million, respectively, primarily associated with discrete events related to an increase in the domestic valuation allowance resulting from the deferred tax asset created by the excess tax benefit from share-based awards. The excess tax benefit resulted from deductions related to equity compensation in excess of compensation recognized for financial reporting and was recorded in additional paid-in capital in accordance with ASC Subtopic 718-740, "Income Taxes." The Company uses tax law ordering when determining when excess tax benefits have been realized.

For the second quarter and first half of 2013, we recorded an income tax provision of \$6 million and \$16 million, respectively, which related primarily to our foreign operations. These provisions included a \$1 million tax benefit associated with discrete events related primarily to the reversal of tax liabilities partially offset by withholding tax on intellectual property royalties recorded during the second quarter of 2013.

The Company does not expect the liability for unrecognized tax benefits to decrease substantially in the next twelve months. Certain of our income tax returns for the 2004 through 2012 tax years are currently under examination by various taxing authorities around the world. Although the resolution of open audits is highly uncertain, management considers it unlikely that the results of these examinations will have a material impact on our financial condition or results of operations.

(8) Commitments and Contingencies

Commitments

Product purchase commitments associated with our strategic manufacturing relationships with our wafer foundries and for assembly and test services include take or pay provisions based on volume commitments for work in progress and forecasted demand based on 18-month rolling forecasts, which are adjusted monthly. The commitment under these relationships was \$130 million as of July 4, 2014.

Litigation

We are a defendant in various lawsuits and are subject to various claims which arise in the normal course of business. The Company records an associated liability when a loss is probable and the amount is reasonably estimable.

From time to time, we are involved in legal proceedings arising in the ordinary course of business, including tort, contractual and customer disputes, claims before the United States Equal Employment Opportunity Commission and other employee grievances, and intellectual property litigation and infringement claims. Intellectual property litigation and infringement claims could cause us to incur significant expenses or prevent us from selling our products. Under agreements with Motorola Inc. ("Motorola"), Freescale Inc. must indemnify Motorola for certain liabilities related to our business incurred prior to our separation from Motorola.

The resolution of intellectual property litigation may require us to pay damages for past infringement or to obtain a license under the other party's intellectual property rights that could require one-time license fees or ongoing royalties, require us to make material changes to our products and/or manufacturing processes, require us to cross-license certain of our patents and other intellectual property and/or prohibit us from manufacturing or selling one or more products in certain jurisdictions, which could adversely impact our operating results in future periods. If any of those events were to occur, our business, financial condition and results of operations could be adversely affected.

(9) Reorganization of Business and Other

Six months ended July 4, 2014

2012 Strategic Realignment

As a result of the strategic review initiated in 2012, we identified opportunities to accelerate revenue growth and improve profitability. We have continued to shift our research and development investment and sales force to reflect this strategic realignment. Since the inception of the plan, we have recorded a total of \$90 million in net charges to reorganization of business and other for employee termination benefits and other exit costs in connection with re-allocating research and development resources and re-aligning sales resources, as further described below.

At each reporting date, we evaluate our accruals for exit costs and employee separation costs, which consist primarily of termination benefits (principally severance payments), to ensure that our accruals are still appropriate. In certain circumstances, accruals are no longer required because of efficiencies in carrying out our plans or because employees previously identified for separation resign unexpectedly and do not receive severance or are redeployed due to circumstances not foreseen when the original plans were initiated. We reverse accruals to earnings when it is determined they are no longer required.

The following table displays a roll-forward from January 1, 2014 to July 4, 2014 of the employee separation and exit cost accruals established related to the 2012 Strategic Realignment:

| (in millions, except headcount) | Accruals at January 1, 2014 | Charges | Adjustments | Usage | Accruals at July 4, 2014 |
|-------------------------------------|--------------------------------|-------------|---------------|----------------|-----------------------------|
| Employee Separation Costs | | | | | |
| Supply chain | \$ 5 | \$ 1 | \$ — | \$ (4) | \$ 2 |
| Selling, general and administrative | 4 | 3 | — | (4) | 3 |
| Research and development | 2 | 4 | — | (3) | 3 |
| Total | <u>\$ 11</u> | <u>\$ 8</u> | <u>\$ —</u> | <u>\$ (11)</u> | <u>\$ 8</u> |
| Related headcount | 170 | 70 | — | (150) | 90 |
| Exit and Other Costs | <u>\$ 8</u> | <u>\$ —</u> | <u>\$ (1)</u> | <u>\$ (3)</u> | <u>\$ 4</u> |

During the first half of 2014, we incurred \$8 million of additional employee separation charges related to the continued implementation of this strategic plan. The \$11 million used reflects cash payments made to employees separated as part of the plan during the first half of 2014. The accrual of \$8 million at July 4, 2014 reflects the estimated liability to be paid to the remaining 90 employees to be separated through the first quarter of 2015, along with previously separated employees still receiving severance benefits, based on current exchange rates.

Additionally, we recorded an adjustment of \$1 million to our previously estimated cost to vacate underutilized office space in Austin, Texas in accordance with ASC Topic 420 "Exit or Disposal Cost Obligations" ("ASC Topic 420") during the first half of 2014, of which \$3 million of the liability was paid during the first half of 2014.

Reorganization of Business Program

In 2008, we began executing a series of restructuring initiatives that streamlined our cost structure and re-directed some research and development investments into expected growth markets ("Reorganization of Business Program"). Since the inception of the plan, we have recorded \$250 million in net charges to reorganization of business and other. The only remaining actions relating to this reorganization program are demolishing the buildings and selling the land located in Sendai, Japan and the decommissioning of the land and buildings at our Toulouse, France manufacturing facility, along with payment of the remaining separation costs.

The following table displays a roll-forward from January 1, 2014 to July 4, 2014 of the employee separation cost accruals established related to the Reorganization of Business Program:

| (in millions, except headcount) | Accruals at January 1, 2014 | Charges | Adjustments | Usage | Accruals at July 4, 2014 |
|-------------------------------------|--------------------------------|-------------|-------------|---------------|-----------------------------|
| Employee Separation Costs | | | | | |
| Supply chain | \$ 17 | \$ — | \$ — | \$ (4) | \$ 13 |
| Selling, general and administrative | 1 | — | — | — | 1 |
| Research and development | 1 | — | — | — | 1 |
| Total | <u>\$ 19</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ (4)</u> | <u>\$ 15</u> |
| Related headcount | 30 | — | — | (20) | 10 |

The \$4 million used reflects cash payments made to employees separated as part of the Reorganization of Business Program during the first half of 2014. The accrual of \$15 million at July 4, 2014 reflects the estimated liability to be paid through 2014 (i) to the remaining 10 employees to be separated, along with previously separated employees still receiving severance benefits and (ii) for outplacement services and other severance-related costs, based on current exchange rates.

Disposition Activities

During first half of 2014 and in connection with the closure of the Toulouse, France manufacturing facility which occurred during 2012, we recorded a \$2 million charge related to on-going closure and decommissioning costs. We also recorded a charge of \$4 million related to demolition costs incurred to prepare our former manufacturing facility located in Sendai, Japan for sale.

Six months ended June 28, 2013

2012 Strategic Realignment

The following table displays a roll-forward from January 1, 2013 to June 28, 2013 of the employee separation and exit cost accruals established related to the 2012 Strategic Realignment:

| (in millions, except headcount) | Accruals at January 1, 2013 | Charges | Adjustments | Used | Accruals at June 28, 2013 |
|-------------------------------------|--------------------------------|---------|-------------|---------|------------------------------|
| Employee Separation Costs | | | | | |
| Supply chain | \$ 6 | \$ — | \$ — | \$ (3) | \$ 3 |
| Selling, general and administrative | 11 | — | — | (5) | 6 |
| Research and development | 13 | — | — | (7) | 6 |
| Total | \$ 30 | \$ — | \$ — | \$ (15) | \$ 15 |
| Related headcount | 270 | — | — | (110) | 160 |
| Exit and Other Costs | \$ 2 | \$ 18 | \$ (2) | \$ (8) | \$ 10 |

The \$15 million used reflects cash payments paid to employees separated as part of the 2012 Strategic Realignment during the first half of 2013. Additionally, we recorded \$18 million in exit and other costs related to (i) additional compensation for employees who were deemed crucial to the implementation of the plan, (ii) a lease termination charge associated with our plans to consolidate workspace in Israel and (iii) exit costs for underutilized office space vacated in connection with plans to consolidate workspace in Austin, Texas in accordance with ASC Topic 420, on which we recorded a \$2 million adjustment during the first half of 2013. In addition to the separation and exit costs associated with 2012 Strategic Realignment, a \$1 million net charge was recorded in reorganization of business and other related to indemnification provisions included in Gregg Lowe's (our president and CEO) employment agreement.

Reorganization of Business Program

The following table displays a roll-forward from January 1, 2013 to June 28, 2013 of the employee separation accruals established related to the Reorganization of Business Program:

| (in millions, except headcount) | Accruals at January 1, 2013 | Charges | Adjustments & Currency Impact | Usage | Accruals at June 28, 2013 |
|-------------------------------------|--------------------------------|---------|----------------------------------|---------|------------------------------|
| Employee Separation Costs | | | | | |
| Supply chain | \$ 77 | \$ — | \$ (2) | \$ (47) | \$ 28 |
| Selling, general and administrative | 2 | — | — | — | 2 |
| Research and development | 2 | — | — | — | 2 |
| Total | \$ 81 | \$ — | \$ (2) | \$ (47) | \$ 32 |
| Related headcount | 520 | — | — | (420) | 100 |

The \$47 million used reflects cash payments made to employees separated as part of the Reorganization of Business Program during the first half of 2013. We adjusted our anticipated future severance payments by \$2 million to incorporate the currency impact in the above presentation. These adjustments reflect the strengthening of the U.S. dollar against the Euro during the first half of 2013.

Disposition Activities

During the first half of 2013 and in connection with the closure of the Toulouse, France manufacturing facility, we recorded a benefit of \$13 million related to proceeds received for the sale of certain of our equipment and machinery located at this facility, which was partially offset by a \$4 million charge related to on-going closure and decommissioning costs.

(10) Supplemental Guarantor Condensed Consolidating Financial Statements

Pursuant to the terms of our acquisition by a consortium of private equity funds ("Sponsors") in a transaction referred to as the "Merger" in December 2006, Freescale Inc. continues as a wholly-owned indirect subsidiary of Freescale Ltd. The reporting entity subsequent to the Merger is Freescale Ltd.

As a result of the Merger and subsequent debt redemption and refinancing transactions, we had \$2,313 million aggregate principal amount of Senior Notes outstanding as of July 4, 2014, as further discussed in Note 4, "Debt." The senior secured notes are jointly and severally guaranteed on a secured, senior basis; the senior unsecured notes are jointly and severally guaranteed on an unsecured, senior basis; and, the senior subordinated notes are jointly and severally guaranteed on an unsecured, senior subordinated basis, in each case, subject to certain exceptions, by Freescale Ltd., its wholly owned direct and

indirect subsidiaries created in connection with the Merger, and SigmaTel, LLC (together, the “Guarantors”). Each Guarantor fully and unconditionally guarantees, jointly and severally with the other Guarantors, as a primary obligor and not merely as a surety, the due and punctual payment and performance of the obligations. As of July 4, 2014, other than SigmaTel, LLC, none of Freescale Inc.’s domestic or foreign subsidiaries (“Non-Guarantors”) guarantee the Senior Notes or Credit Facility. In the future, other subsidiaries may be required to guarantee all or a portion of the Senior Notes, if and to the extent they guarantee the Credit Facility. (The relationship between the Company and the parent companies is defined and discussed in Note 1, “Basis of Presentation and Principles of Consolidation,” to our consolidated financial statements in the Annual Report.)

The following tables present our results of operations, financial position and cash flows of Freescale Ltd., the Guarantors, Freescale Inc., the Non-Guarantors and eliminations for the three and six months ended July 4, 2014 and June 28, 2013 and as of July 4, 2014 and December 31, 2013, to arrive at the information on a consolidated basis:

Supplemental Condensed Consolidating Statement of Operations
For the Three Months Ended July 4, 2014

| (in millions) | Freescale Ltd. | Guarantors | Freescale Inc. | Non-Guarantors | Eliminations | Consolidated |
|----------------------------------------------------------|----------------|------------|----------------|----------------|--------------|--------------|
| Net sales | \$ — | \$ — | \$ 1,526 | \$ 1,588 | \$ (1,923) | \$ 1,191 |
| Cost of sales | — | — | 1,041 | 1,536 | (1,923) | 654 |
| Gross margin | — | — | 485 | 52 | — | 537 |
| Selling, general and administrative | 2 | — | 164 | 58 | (96) | 128 |
| Research and development | — | — | 143 | 76 | — | 219 |
| Amortization expense for acquired intangible assets | — | — | 4 | — | — | 4 |
| Reorganization of business and other | — | — | 3 | 3 | — | 6 |
| Operating (loss) earnings | (2) | — | 171 | (85) | 96 | 180 |
| Loss on extinguishment or modification of long-term debt | — | — | — | — | — | — |
| Other income (expense), net | 175 | 175 | 5 | 98 | (536) | (83) |
| Earnings before income taxes | 173 | 175 | 176 | 13 | (440) | 97 |
| Income tax expense | — | — | 1 | 10 | — | 11 |
| Net earnings | \$ 173 | \$ 175 | \$ 175 | \$ 3 | \$ (440) | \$ 86 |

Supplemental Condensed Consolidating Statement of Comprehensive Earnings
For the Three Months Ended July 4, 2014

| (in millions) | Freescall Ltd. | Guarantors | Freescall Inc. | Non-Guarantors | Eliminations | Consolidated |
|-------------------------------------------------------------------|----------------|------------|----------------|----------------|--------------|--------------|
| Net earnings | \$ 173 | \$ 175 | \$ 175 | \$ 3 | \$ (440) | \$ 86 |
| Other comprehensive earnings, net of tax: | | | | | | |
| Foreign currency translation adjustments | — | — | — | — | — | — |
| Derivative instrument adjustments: | | | | | | |
| Unrealized gains arising during the period | — | — | 3 | — | — | 3 |
| Reclassification adjustment for items included in net earnings | — | — | 1 | — | — | 1 |
| Post-retirement adjustments: | | | | | | |
| Gains (losses) arising during the period | — | — | — | — | — | — |
| Amortization of actuarial (losses) gains included in net earnings | — | — | (2) | 1 | — | (1) |
| Other comprehensive earnings | — | — | 2 | 1 | — | 3 |
| Comprehensive earnings | \$ 173 | \$ 175 | \$ 177 | \$ 4 | \$ (440) | \$ 89 |

Supplemental Condensed Consolidating Statement of Operations
For the Three Months Ended June 28, 2013

| (in millions) | Freescall Ltd. | Guarantors | Freescall Inc. | Non-Guarantors | Eliminations | Consolidated |
|----------------------------------------------------------|----------------|------------|----------------|----------------|--------------|--------------|
| Net sales | \$ — | \$ — | \$ 1,326 | \$ 1,364 | \$ (1,652) | \$ 1,038 |
| Cost of sales | — | — | 981 | 1,268 | (1,652) | 597 |
| Gross margin | — | — | 345 | 96 | — | 441 |
| Selling, general and administrative | 1 | — | 170 | 49 | (105) | 115 |
| Research and development | — | — | 119 | 68 | — | 187 |
| Amortization expense for acquired intangible assets | — | — | 4 | — | — | 4 |
| Reorganization of business and other | — | — | (2) | 12 | — | 10 |
| Operating (loss) earnings | (1) | — | 54 | (33) | 105 | 125 |
| Loss on extinguishment or modification of long-term debt | — | — | (59) | — | — | (59) |
| Other (expense) income, net | (14) | (14) | (10) | 107 | (194) | (125) |
| (Loss) earnings before income taxes | (15) | (14) | (15) | 74 | (89) | (59) |
| Income tax (benefit) expense | — | — | (1) | 7 | — | 6 |
| Net (loss) earnings | \$ (15) | \$ (14) | \$ (14) | \$ 67 | \$ (89) | \$ (65) |

Supplemental Condensed Consolidating Statement of Comprehensive (Loss) Earnings
For the Three Months Ended June 28, 2013

| (in millions) | Freescall Ltd. | Guarantors | Freescall Inc. | Non-Guarantors | Eliminations | Consolidated |
|-----------------------------------------------------------------------|----------------|------------|----------------|----------------|--------------|--------------|
| Net (loss) earnings | \$ (15) | \$ (14) | \$ (14) | \$ 67 | \$ (89) | \$ (65) |
| Other comprehensive loss, net of tax: | | | | | | |
| Foreign currency translation adjustments | — | — | — | — | — | — |
| Derivative instrument adjustments: | | | | | | |
| Unrealized losses arising during the period | — | — | (5) | — | — | (5) |
| Reclassification adjustment for items included in net (loss) earnings | — | — | (1) | — | — | (1) |
| Post-retirement adjustments: | | | | | | |
| Gains (losses) arising during the period | — | — | — | — | — | — |
| Amortization of actuarial gains included in net (loss) earnings | — | — | — | — | — | — |
| Other comprehensive loss | — | — | (6) | — | — | (6) |
| Comprehensive (loss) earnings | \$ (15) | \$ (14) | \$ (20) | \$ 67 | \$ (89) | \$ (71) |

Supplemental Condensed Consolidating Statement of Operations
For the Six Months Ended July 4, 2014

| (in millions) | Freescall Ltd. | Guarantors | Freescall Inc. | Non-Guarantors | Eliminations | Consolidated |
|----------------------------------------------------------|----------------|------------|----------------|----------------|--------------|--------------|
| Net sales | \$ — | \$ — | \$ 2,922 | \$ 3,093 | \$ (3,697) | \$ 2,318 |
| Cost of sales | — | — | 2,071 | 2,902 | (3,697) | 1,276 |
| Gross margin | — | — | 851 | 191 | — | 1,042 |
| Selling, general and administrative | 4 | — | 330 | 116 | (196) | 254 |
| Research and development | — | — | 278 | 151 | — | 429 |
| Amortization expense for acquired intangible assets | — | — | 7 | — | — | 7 |
| Reorganization of business and other | — | — | 4 | 13 | — | 17 |
| Operating (loss) earnings | (4) | — | 232 | (89) | 196 | 335 |
| Loss on extinguishment or modification of long-term debt | — | — | (59) | — | — | (59) |
| Other income (expense), net | 154 | 154 | (14) | 199 | (679) | (186) |
| Earnings before income taxes | 150 | 154 | 159 | 110 | (483) | 90 |
| Income tax expense | — | — | 5 | 22 | — | 27 |
| Net earnings | \$ 150 | \$ 154 | \$ 154 | \$ 88 | \$ (483) | \$ 63 |

Supplemental Condensed Consolidating Statement of Comprehensive Earnings
For the Six Months Ended July 4, 2014

| <u>(in millions)</u> | <u>Freescall Ltd.</u> | <u>Guarantors</u> | <u>Freescall Inc.</u> | <u>Non-Guarantors</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|-------------------------------------------------------------------|-----------------------|-------------------|-----------------------|-----------------------|---------------------|---------------------|
| Net earnings | \$ 150 | \$ 154 | \$ 154 | \$ 88 | \$ (483) | \$ 63 |
| Other comprehensive earnings, net of tax: | | | | | | |
| Foreign currency translation adjustments | — | — | — | — | — | — |
| Derivative instrument adjustments: | | | | | | |
| Unrealized gains arising during the period | — | — | 6 | — | — | 6 |
| Reclassification adjustment for items included in net earnings | — | — | 2 | — | — | 2 |
| Post-retirement adjustments: | | | | | | |
| Gains arising during the period | — | — | — | — | — | — |
| Amortization of actuarial (losses) gains included in net earnings | — | — | (2) | 1 | — | (1) |
| Other comprehensive earnings | — | — | 6 | 1 | — | 7 |
| Comprehensive earnings | \$ 150 | \$ 154 | \$ 160 | \$ 89 | \$ (483) | \$ 70 |

Supplemental Condensed Consolidating Statement of Operations
For the Six Months Ended June 28, 2013

| <u>(in millions)</u> | <u>Freescall Ltd.</u> | <u>Guarantors</u> | <u>Freescall Inc.</u> | <u>Non-Guarantors</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|----------------------------------------------------------|-----------------------|-------------------|-----------------------|-----------------------|---------------------|---------------------|
| Net sales | \$ — | \$ — | \$ 2,520 | \$ 2,608 | \$ (3,109) | \$ 2,019 |
| Cost of sales | — | — | 1,882 | 2,407 | (3,109) | 1,180 |
| Gross margin | — | — | 638 | 201 | — | 839 |
| Selling, general and administrative | 3 | — | 310 | 91 | (178) | 226 |
| Research and development | — | — | 235 | 134 | — | 369 |
| Amortization expense for acquired intangible assets | — | — | 7 | — | — | 7 |
| Reorganization of business and other | — | — | 3 | 5 | — | 8 |
| Operating (loss) earnings | (3) | — | 83 | (29) | 178 | 229 |
| Loss on extinguishment or modification of long-term debt | — | — | (81) | — | — | (81) |
| Other income (expense), net | 40 | 40 | 38 | 183 | (546) | (245) |
| Earnings (loss) before income taxes | 37 | 40 | 40 | 154 | (368) | (97) |
| Income tax expense | — | — | — | 16 | — | 16 |
| Net earnings (loss) | \$ 37 | \$ 40 | \$ 40 | \$ 138 | \$ (368) | \$ (113) |

Supplemental Condensed Consolidating Statement of Comprehensive Earnings (Loss)
For the Six Months Ended June 28, 2013

| (in millions) | Freescall Ltd. | Guarantors | Freescall Inc. | Non-Guarantors | Eliminations | Consolidated |
|-----------------------------------------------------------------------|----------------|------------|----------------|----------------|--------------|--------------|
| Net earnings (loss) | \$ 37 | \$ 40 | \$ 40 | \$ 138 | \$ (368) | \$ (113) |
| Other comprehensive loss, net of tax: | | | | | | |
| Foreign currency translation adjustments | — | — | — | (4) | — | (4) |
| Derivative instrument adjustments: | | | | | | |
| Unrealized losses arising during the period | — | — | (6) | — | — | (6) |
| Reclassification adjustment for items included in net earnings (loss) | — | — | (1) | — | — | (1) |
| Post-retirement adjustments: | | | | | | |
| Gains arising during the period | — | — | — | 2 | — | 2 |
| Amortization of actuarial gains included in net earnings (loss) | — | — | — | 1 | — | 1 |
| Other comprehensive loss | — | — | (7) | (1) | — | (8) |
| Comprehensive earnings (loss) | \$ 37 | \$ 40 | \$ 33 | \$ 137 | \$ (368) | \$ (121) |

Supplemental Condensed Consolidating Balance Sheet
July 4, 2014

| (in millions) | Freescall Ltd. | Guarantors | Freescall Inc. | Non-Guarantors | Eliminations | Consolidated |
|-----------------------------------------------------------------|-------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 5 | \$ — | \$ 163 | \$ 576 | \$ — | \$ 744 |
| Inter-company receivable | 184 | — | 553 | 518 | (1,255) | — |
| Accounts receivable, net | — | — | 146 | 437 | — | 583 |
| Inventory, net | — | — | 290 | 411 | — | 701 |
| Other current assets | — | — | 86 | 72 | — | 158 |
| Total current assets | 189 | — | 1,238 | 2,014 | (1,255) | 2,186 |
| Property, plant and equipment, net | — | — | 330 | 377 | — | 707 |
| Investment in affiliates | (3,879) | (3,879) | 1,382 | — | 6,376 | — |
| Intangible assets, net | — | — | 59 | — | — | 59 |
| Inter-company note receivable | — | 121 | — | 164 | (285) | — |
| Other assets, net | 5 | — | 144 | 164 | — | 313 |
| Total Assets | \$ (3,685) | \$ (3,758) | \$ 3,153 | \$ 2,719 | \$ 4,836 | \$ 3,265 |
| Liabilities and Shareholders' (Deficit) Equity | | | | | | |
| Current portion of long-term debt and capital lease obligations | \$ — | \$ — | \$ 35 | \$ — | \$ — | \$ 35 |
| Inter-company payable | — | — | 568 | 687 | (1,255) | — |
| Accounts payable | — | — | 255 | 183 | — | 438 |
| Accrued liabilities and other | — | — | 220 | 159 | — | 379 |
| Total current liabilities | — | — | 1,078 | 1,029 | (1,255) | 852 |
| Long-term debt | — | — | 5,750 | — | — | 5,750 |
| Inter-company note payable | 43 | 121 | — | 121 | (285) | — |
| Other liabilities | — | — | 204 | 187 | — | 391 |
| Total liabilities | 43 | 121 | 7,032 | 1,337 | (1,540) | 6,993 |
| Total shareholders' (deficit) equity | (3,728) | (3,879) | (3,879) | 1,382 | 6,376 | (3,728) |
| Total Liabilities and Shareholders' (Deficit) Equity | \$ (3,685) | \$ (3,758) | \$ 3,153 | \$ 2,719 | \$ 4,836 | \$ 3,265 |

Supplemental Condensed Consolidating Balance Sheet
December 31, 2013

| (in millions) | Freescall Ltd. | Guarantors | Freescall Inc. | Non-Guarantors | Eliminations | Consolidated |
|-----------------------------------------------------------------|-------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 1 | \$ — | \$ 235 | \$ 511 | \$ — | \$ 747 |
| Inter-company receivable | 169 | — | 445 | 504 | (1,118) | — |
| Accounts receivable, net | — | — | 91 | 297 | — | 388 |
| Inventory, net | — | — | 276 | 457 | — | 733 |
| Other current assets | — | — | 74 | 53 | — | 127 |
| Total current assets | 170 | — | 1,121 | 1,822 | (1,118) | 1,995 |
| Property, plant and equipment, net | — | — | 327 | 354 | — | 681 |
| Investment in affiliates | (4,721) | (4,721) | 1,364 | — | 8,078 | — |
| Intangible assets, net | — | — | 52 | — | — | 52 |
| Inter-company note receivable | — | 118 | — | 161 | (279) | — |
| Other assets, net | — | — | 156 | 163 | — | 319 |
| Total Assets | \$ (4,551) | \$ (4,603) | \$ 3,020 | \$ 2,500 | \$ 6,681 | \$ 3,047 |
| Liabilities and Shareholders' (Deficit) Equity | | | | | | |
| Current portion of long-term debt and capital lease obligations | \$ — | \$ — | \$ 93 | \$ — | \$ — | \$ 93 |
| Inter-company payable | — | — | 565 | 553 | (1,118) | — |
| Accounts payable | — | — | 241 | 157 | — | 398 |
| Accrued liabilities and other | — | — | 245 | 126 | — | 371 |
| Total current liabilities | — | — | 1,144 | 836 | (1,118) | 862 |
| Long-term debt | — | — | 6,386 | — | — | 6,386 |
| Inter-company note payable | 43 | 118 | — | 118 | (279) | — |
| Other liabilities | — | — | 211 | 182 | — | 393 |
| Total liabilities | 43 | 118 | 7,741 | 1,136 | (1,397) | 7,641 |
| Total shareholders' (deficit) equity | (4,594) | (4,721) | (4,721) | 1,364 | 8,078 | (4,594) |
| Total Liabilities and Shareholders' (Deficit) Equity | \$ (4,551) | \$ (4,603) | \$ 3,020 | \$ 2,500 | \$ 6,681 | \$ 3,047 |

Supplemental Condensed Consolidating Statement of Cash Flows
For the Six Months Ended July 4, 2014

| (in millions) | Freescall Ltd. | Guarantors | Freescall Inc. | Non-Guarantors | Eliminations | Consolidated |
|------------------------------------------------------------------------------|----------------|--------------|----------------|----------------|----------------|---------------|
| Cash flow provided by (used for) operating activities | \$ 28 | \$ — | \$ (31) | \$ 234 | \$ (87) | \$ 144 |
| Cash flows from investing activities: | | | | | | |
| Purchases of property, plant and equipment | — | — | (42) | (70) | — | (112) |
| Acquisitions and strategic investment activity | — | — | (11) | — | — | (11) |
| Proceeds from the sale of property, plant and equipment | — | — | — | — | — | — |
| Payments for purchased licenses and other assets | — | — | (30) | (14) | — | (44) |
| Inter-company loans and capital transactions | (780) | (782) | — | (2) | 1,564 | — |
| Cash flow used for investing activities | (780) | (782) | (83) | (86) | 1,564 | (167) |
| Cash flows from financing activities: | | | | | | |
| Retirements of and payments for long-term debt and capital lease obligations | — | — | (1,333) | — | — | (1,333) |
| Debt issuance proceeds, net of debt issuance costs | — | — | 590 | — | — | 590 |
| Proceeds from equity offering, net of offering costs | 717 | — | — | — | — | 717 |
| Proceeds from stock option exercises and ESPP share purchases | 39 | — | — | — | — | 39 |
| Excess tax benefits from share-based compensation plans | — | — | 5 | — | — | 5 |
| Inter-company loans, dividends and capital transactions | — | 782 | 780 | (85) | (1,477) | — |
| Cash flow provided by (used for) financing activities | 756 | 782 | 42 | (85) | (1,477) | 18 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | 2 | — | 2 |
| Net increase (decrease) in cash and cash equivalents | 4 | — | (72) | 65 | — | (3) |
| Cash and cash equivalents, beginning of period | 1 | — | 235 | 511 | — | 747 |
| Cash and cash equivalents, end of period | \$ 5 | \$ — | \$ 163 | \$ 576 | \$ — | \$ 744 |

Supplemental Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 28, 2013

| (in millions) | Freescall Ltd. | Guarantors | Freescall Inc. | Non-Guarantors | Eliminations | Consolidated |
|------------------------------------------------------------------------------|----------------|-------------|----------------|----------------|--------------|---------------|
| Cash flow (used for) provided by operating activities | \$ (7) | \$ — | \$ 48 | \$ 248 | \$ (150) | \$ 139 |
| Cash flows from investing activities: | | | | | | |
| Purchases of property, plant and equipment | — | — | (23) | (39) | — | (62) |
| Proceeds from the sale of property, plant and equipment | — | — | — | 6 | — | 6 |
| Payments for purchased licenses and other assets | — | — | (17) | (17) | — | (34) |
| Acquisitions and strategic investment activity | — | — | (1) | — | — | (1) |
| Inter-company loans and capital transactions | (38) | (40) | 26 | (2) | 54 | — |
| Cash flow used for investing activities | (38) | (40) | (15) | (52) | 54 | (91) |
| Cash flows from financing activities: | | | | | | |
| Retirements of and payments for long-term debt and capital lease obligations | — | — | (3,214) | — | — | (3,214) |
| Debt issuance proceeds, net of debt issuance costs | — | — | 3,200 | — | — | 3,200 |
| Proceeds from stock option exercises and ESPP share purchases | 46 | — | — | — | — | 46 |
| Inter-company loans, dividends and capital transactions | — | 40 | 38 | (174) | 96 | — |
| Cash flow provided by (used for) financing activities | 46 | 40 | 24 | (174) | 96 | 32 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | (6) | — | (6) |
| Net increase in cash and cash equivalents | 1 | — | 57 | 16 | — | 74 |
| Cash and cash equivalents, beginning of period | 1 | — | 104 | 606 | — | 711 |
| Cash and cash equivalents, end of period | \$ 2 | \$ — | \$ 161 | \$ 622 | \$ — | \$ 785 |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our results of operations for the three and six months ended July 4, 2014 and June 28, 2013 and our financial condition as of July 4, 2014 and December 31, 2013. The following discussion of our results of operations and financial condition should be read in conjunction with our consolidated financial statements and the notes in "Item 8: Financial Statements and Supplementary Data" of our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 10, 2014 ("Annual Report"). This discussion contains forward looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" in Part I, Item 1A of our Annual Report. Actual results may differ materially from those contained in any forward looking statements. Freescale Semiconductor, Ltd. and its wholly-owned subsidiaries, including Freescale Semiconductor, Inc. ("Freescale Inc."), are collectively referred to as the "Company," "Freescale," "we," "us" or "our," as the context requires.

Our Business. We are a global leader in microcontrollers and digital networking processors. These embedded processors form the foundation of emerging technologies, including the Internet of Things, a network of smart devices and electronics that help make our lives safer and more productive. We complement our embedded processors with analog, sensor and radio frequency (RF) devices to help provide highly integrated solutions that streamline customer development efforts and shorten their time to market. An embedded processing solution is the combination of embedded processors, complementary semiconductor devices and software. Our embedded processor products include microcontrollers (MCUs), single- and multicore microprocessors, digital signal controllers, applications processors and digital signal processors. Our programmable devices, along with software, provide the core functionality of electronic systems, adding essential control and intelligence, enhancing performance and optimizing power usage while lowering system costs.

A key element of our strategy is to combine our embedded processors, complementary semiconductor devices and software to offer highly integrated solutions that are increasingly sought by our customers to simplify their development efforts and shorten their time to market. In addition, we are expanding our customer base by more aggressively leveraging the unique breadth and depth of our product portfolio. We have a heritage of innovation and product leadership spanning over 50 years and have an extensive intellectual property portfolio. We sell our products directly to original equipment manufacturers, distributors, original design manufacturers and contract manufacturers. We have built close customer relationships through years of collaborative product development.

The trend of increasing connectivity and the need for enhanced intelligence in existing and new markets are the primary drivers of the growth of embedded processing solutions in electronic devices. The majority of our net sales is derived from five product groups. Our Microcontrollers product group represented 21% and 19% of our total net sales in the second quarter of 2014 and 2013, respectively. MCUs are a self-contained embedded control system with processors, memory and peripherals on a chip. Combined with applications processors, we deliver solutions for automotive, industrial, smart energy, healthcare and multimedia applications. Our Digital Networking product group represented 24% and 22% of our total net sales in the second quarter of 2014 and 2013, respectively. We offer a scalable portfolio of multicore communication processors and system-on-a-chip solutions for the networking and communication markets. Our products provide enhanced intelligence and connectivity to the telecommunications equipment, network infrastructure and general embedded connectivity nodes that are enabling the Internet of Things. Our Automotive MCU product group represented 26% of our total net sales in the second quarter of both 2014 and 2013. Our Automotive MCUs are developed specifically for the critical performance and quality requirements of the automotive industry. We are enabling the latest developments in powertrain, advanced safety, body and infotainment applications. Our Analog and Sensors product group represented 17% and 18% of our total net sales in the second quarter of 2014 and 2013, respectively. Our analog, mixed-signal analog and sensor products help capture, manage and transmit data from the real-world environment for embedded processing applications in the automotive, industrial and consumer markets. These devices complement our MCUs in applications for robotics, factory automation, automotive radar, braking and airbag control. Our RF product group represented 10% and 8% of our total net sales in the second quarter of 2014 and 2013, respectively. We supply RF high-power products into the cellular infrastructure market and are expanding our portfolio to leverage our RF technology leadership into the military, appliance and automotive markets.

Conditions Impacting Our Business. Our business results are impacted by demand for electronic content in automobiles, networking and wireless infrastructure equipment, industrial automation and consumer electronic devices. We operate in an industry that is cyclical and subject to technological changes, product obsolescence, price erosion, evolving standards, short product life-cycles, changing customer inventory levels and fluctuations in product supply and demand.

Our total net sales in the second quarter of 2014 increased by \$64 million, or 6%, compared to the first quarter of 2014. Revenues increased across all five product groups, offset by a decline in intellectual property revenue. Our gross margin increased 30 basis points in the second quarter of 2014 as compared to the first quarter of 2014. The sequential increase in gross margin is attributable primarily to increasing revenues, operational efficiencies and procurement savings. These improvements were offset by lower than expected intellectual property revenue. The Company expects the lower level of

intellectual property revenue to persist and to remain uncertain due to changes in the laws and the marketplace for intellectual property transactions. Capital expenditures were \$56 million, or 5% of net sales, in both the second and first quarter of 2014 as we continue to add capacity to meet demand from our customers.

Net sales in the near term will depend on general global economic activity and our ability to meet unscheduled or temporary increases in demand in our target markets, among other factors. We anticipate that our total net sales and gross margin will grow modestly on a sequential basis as compared to the second quarter of 2014. For more information on trends and other factors affecting our business, refer to Part I, Item 1A: "Risk Factors" included in our Annual Report.

Capital Restructuring Activities. During the first quarter of 2014, we completed an equity issuance from which we received net proceeds totaling approximately \$717 million, which were used, along with cash on hand, to redeem \$680 million of outstanding indebtedness and pay related call premiums. Additionally during the first quarter of 2014, Freescale Inc. completed a debt refinancing transaction which extended the maturity of \$347 million of our indebtedness and reduced the interest rate on \$2.7 billion of indebtedness. The combined impact of these transactions reduced our annualized cash interest expense by approximately \$78 million based on current interest rates, the impact of which we began fully realizing in the second quarter of 2014. (Refer to Note 4, "Debt," in the accompanying Condensed Consolidated Financial Statements and "Liquidity and Capital Resources - Financing Activities" for additional discussion of these transactions.)

Results of Operations for the Three and Six Months Ended July 4, 2014 and June 28, 2013

| (in millions, unaudited) | Three Months Ended | | Six Months Ended | |
|----------------------------------------------------------|--------------------|---------------|------------------|---------------|
| | July 4, 2014 | June 28, 2013 | July 4, 2014 | June 28, 2013 |
| Orders | \$ 1,235 | \$ 1,094 | \$ 2,372 | \$ 2,084 |
| Net sales | \$ 1,191 | \$ 1,038 | \$ 2,318 | \$ 2,019 |
| Cost of sales | 654 | 597 | 1,276 | 1,180 |
| Gross margin | 537 | 441 | 1,042 | 839 |
| Selling, general and administrative | 128 | 115 | 254 | 226 |
| Research and development | 219 | 187 | 429 | 369 |
| Amortization expense for acquired intangible assets | 4 | 4 | 7 | 7 |
| Reorganization of business and other | 6 | 10 | 17 | 8 |
| Operating earnings | 180 | 125 | 335 | 229 |
| Loss on extinguishment or modification of long-term debt | — | (59) | (59) | (81) |
| Other expense, net | (83) | (125) | (186) | (245) |
| Earnings (loss) before income taxes | 97 | (59) | 90 | (97) |
| Income tax expense | 11 | 6 | 27 | 16 |
| Net earnings (loss) | \$ 86 | \$ (65) | \$ 63 | \$ (113) |

Percentage of Net Sales

| (unaudited) | Three Months Ended | | Six Months Ended | |
|----------------------------------------------------------|--------------------|---------------|------------------|---------------|
| | July 4, 2014 | June 28, 2013 | July 4, 2014 | June 28, 2013 |
| Orders | 103.7% | 105.4% | 102.3% | 103.2% |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 54.9% | 57.5% | 55.0% | 58.4% |
| Gross margin | 45.1% | 42.5% | 45.0% | 41.6% |
| Selling, general and administrative | 10.7% | 11.1% | 11.0% | 11.2% |
| Research and development | 18.4% | 18.0% | 18.5% | 18.3% |
| Amortization expense for acquired intangible assets | 0.3% | 0.4% | 0.3% | 0.4% |
| Reorganization of business and other | 0.6% | 1.0% | 0.7% | 0.4% |
| Operating earnings | 15.1% | 12.0% | 14.5% | 11.3% |
| Loss on extinguishment or modification of long-term debt | —% | * | * | * |
| Other expense, net | * | * | * | * |
| Earnings (loss) before income taxes | 8.1% | * | 3.9% | * |
| Income tax expense | 0.9% | 0.6% | 1.2% | 0.8% |
| Net earnings (loss) | 7.2% | * | 2.7% | * |

* Not meaningful.

Three and Six Months Ended July 4, 2014 Compared to Three and Six Months Ended June 28, 2013
Net Sales

Our net sales increased by \$153 million, or 15%, in the second quarter of 2014 compared to the second quarter of 2013 and by \$299 million, or 15%, in the first half of 2014 compared to the first half of 2013. Our orders increased 13% in the second quarter of 2014 compared to second quarter of 2013 and by 14% in the first half of 2014 compared to the first half of 2013 driven by growth across all of our product groups and end markets. This sales growth was partially offset by lower intellectual property revenue and declines in sales of legacy products into the cellular market. Distribution sales were

approximately 28% and 27% of net sales in the second quarter and first half of 2014, respectively, compared to 26% and 25% of net sales in the second quarter and first half of 2013, respectively. Distribution sales increased \$67 million compared to the second quarter of 2013 and \$116 million compared to the first half of 2013. Distribution inventory, in dollars, was 8.9 weeks at July 4, 2014, compared to 9.1 weeks at December 31, 2013 and 9.1 weeks at June 28, 2013.

Net sales by product group for the three and six months ended July 4, 2014 and June 28, 2013 were as follows:

| (in millions, unaudited) | Three Months Ended | | Six Months Ended | |
|--------------------------|--------------------|-----------------|------------------|-----------------|
| | July 4, 2014 | June 28, 2013 | July 4, 2014 | June 28, 2013 |
| Microcontrollers | \$ 246 | \$ 199 | \$ 469 | \$ 376 |
| Digital Networking | 291 | 229 | 540 | 431 |
| Automotive MCU | 308 | 272 | 612 | 526 |
| Analog & Sensors | 205 | 188 | 403 | 365 |
| RF | 120 | 81 | 233 | 167 |
| Other | 21 | 69 | 61 | 154 |
| Total net sales | <u>\$ 1,191</u> | <u>\$ 1,038</u> | <u>\$ 2,318</u> | <u>\$ 2,019</u> |

Microcontrollers

Microcontrollers' net sales increased by \$47 million, or 24%, in the second quarter of 2014 and \$93 million, or 25%, in the first half of 2014 compared to the prior year periods driven by growth in both microcontrollers and applications processors. The increase in microcontrollers revenue was largely due to higher sales through distribution. The increase in applications processors revenue was driven by increased sales both through distribution and into the worldwide automotive market. The increases in net sales through the distribution channel occurred across all our key geographies due to increasing sales of our 32-bit microcontrollers.

Digital Networking

Digital Networking's net sales increased by \$62 million, or 27%, in the second quarter of 2014 and \$109 million, or 25%, in the first half of 2014 compared to the prior year periods. Sales growth in both periods was broad-based with higher sales of service provider equipment including wireless basestations in China, general embedded products sold into the distribution channel and next generation enterprise systems.

Automotive MCU

Automotive MCU's net sales increased by \$36 million, or 13%, in the second quarter of 2014 and \$86 million, or 16%, in the first half of 2014 compared to the prior year periods. The growth was due to an increase in worldwide automotive production, growth in vehicle semiconductor content along with increased sales into the distribution channel.

Analog & Sensors

Analog and Sensors' net sales increased by \$17 million, or 9%, in the second quarter of 2014 and \$38 million, or 10%, during the first half of 2014 compared to the prior year periods. Approximately 85% of our Analog and Sensors sales are into the automotive market. We experienced higher net sales due to growth in the automotive market for both our Analog and Sensor products due primarily to increased semiconductor content driven by fuel efficiency requirements and safety features coupled with an increase in worldwide automotive production.

RF

RF's net sales increased by \$39 million, or 48%, in the second quarter of 2014 and \$66 million, or 40%, in the first half of 2014 compared to the prior year periods driven by continued growth in next generation wireless basestation spending, primarily in China. The growth in RF net sales was impacted by supply constraints associated with demand related to wireless basestation expansion. The Company is investing in capital to improve supply in the second half of 2014.

Other

Other net sales decreased by \$48 million, or 70%, in the second quarter of 2014 compared to the second quarter of 2014 and \$93 million, or 60%, in the first half of 2014 compared to the first half of 2013 primarily due to lower intellectual property revenue and decreased cellular product sales. As a percentage of net sales, intellectual property revenue was 1% and 2% for the second quarter and first half of 2014, respectively, and 5% for both the second quarter and first half of 2013. Our intellectual property revenue during the second quarter and first half of 2013 significantly exceeded our historical average of approximately 3% of net sales and benefited from certain agreements entered into

during 2012. The revenue stream attributed to these agreements ended in the fourth quarter of 2013. Agreements of similar size may not occur in the future, and we expect lower levels of intellectual property revenue to persist.

Gross Margin

Our gross margin increased by \$96 million, or 22%, during the second quarter of 2014 compared to the second quarter of 2013 which was primarily driven by a 15% increase in our net sales. As a percentage of net sales, gross margin was 45.1% in the second quarter of 2014, reflecting an increase of 260 basis points compared to the second quarter of 2013. Our gross margin increased by \$203 million, or 24%, during the first half of 2014 compared to the first half of 2013 which was primarily driven by a 15% increase in our net sales. As a percentage of net sales, gross margin was 45.0% in the first half of 2014, reflecting an increase of 340 basis points compared to the first half of 2013.

Improvement in gross margin as a percentage of net sales was largely attributable to higher revenues and an increase in utilization of our manufacturing assets which contributed to improvements in operating leverage of our fixed manufacturing costs. Front-end wafer manufacturing facility utilization improved from 86% during the second quarter of 2013 to 91% during the second quarter of 2014 and from 83% during the first half of 2013 to 90% during the first half of 2014 due to increased demand. Our high level of utilization has impacted our ability to meet customer demand for certain of our products. We expect to make progress in the third quarter of 2014 to better address this demand with the installation of additional capacity. We also transitioned personnel from roles focusing on manufacturing cost reduction, factory closure and customer qualification efforts to roles supporting various new product development initiatives which had a positive impact on the year over year improvement in gross margin. Other factors benefiting gross margin in both periods included operational efficiencies and procurement savings. These improvements were partially offset by the impact of decreases in average selling prices resulting from our annual negotiations with our customers that went into effect during the first quarter of 2014, a decrease in cellular product net sales and higher incentive compensation. In addition the Company experienced lower intellectual property revenue, which represented 1% and 2% of net sales for the second quarter and first half of 2014, respectively, compared to 5% of net sales for both the second quarter and first half 2013. The Company expects lower intellectual property revenue to persist.

Selling, General and Administrative

Our selling, general and administrative expenses increased by \$13 million, or 11%, and \$28 million, or 12%, in the second quarter and first half of 2014, respectively, compared to the prior year periods. These increases are due to additional resources and strategic spend on sales and marketing efforts, including the Freescale Technology Forum held in the second quarter of 2014, and higher incentive compensation. In addition, the prior year included a charge for commitments to make charitable contributions to the Freescale Foundation, a nonprofit, 501(c)(3) organization during the second quarter of 2013. As a percentage of net sales, our selling, general and administrative expenses were flat compared to the prior year periods at approximately 11% in both the second quarter and first half of 2014.

Research and Development

Our research and development expenses increased by \$32 million, or 17%, and \$60 million, or 16%, in the second quarter and first half of 2014, respectively, compared to the prior year periods. These increases are related to additional investment in our strategic areas and next generation technologies, including the aforementioned personnel move from manufacturing cost reduction activities to roles focusing on new product development initiatives, along with higher incentive compensation. As a percentage of net sales, our research and development expenses were flat compared to the prior year periods at approximately 18% in both the second quarter and first half of 2014.

Amortization Expense for Acquired Intangible Assets

Amortization expense for acquired intangible assets related to tradenames/trademarks, customer relationships and developed technology remained flat in the second quarter and first half of 2014 compared to the prior year periods as the majority of these intangible assets have reached a normalized amortization run rate.

Reorganization of Business and Other

During the second quarter of 2014, we recorded \$3 million in charges related to on-going closure and decommissioning costs for our Toulouse, France manufacturing facility and demolition costs for our former manufacturing facility located in Sendai, Japan along with other charges. (Refer to Note 9, "Reorganization of Business and Other," in the accompanying Condensed Consolidated Financial Statements for more information on the charges discussed in this section.)

Additionally, during the first half of 2014, we recorded a \$7 million net charge primarily related to employee separation costs in connection with the continued implementation of the reorganization plan initiated in 2012. We also incurred an incremental \$3 million in charges during the first quarter related to on-going closure and decommissioning costs for our Toulouse, France manufacturing facility and demolition costs for our former manufacturing facility located in Sendai, Japan. Additionally, we recorded a \$1 million charge related to the write down of specific manufacturing assets to fair value due to the elimination of certain manufacturing processes for some of our next generation products.

In the second quarter of 2013, we recorded \$9 million in charges related to continued implementation of the restructuring plan initiated during the fourth quarter of 2012, primarily comprised of costs associated with consolidating workspace in Israel and Austin, Texas along with additional compensation for employees who were deemed crucial to the continuing implementation of the plan. Additionally, we recorded a \$1 million charge related to on-going closure and decommissioning costs for the Toulouse, France manufacturing facility.

Additionally, during the first half of 2013, we recorded a net benefit of \$10 million related to our Toulouse, France manufacturing facility, which included a benefit for proceeds received for the sale of certain of our equipment and machinery partially offset by a charge related to on-going closure and decommissioning costs for this site. We also recorded \$8 million of charges related to (i) continued implementation of the restructuring plan initiated in the fourth quarter of 2012, (ii) exit costs for underutilized office space and (iii) charges related to indemnification provisions included in our CEO's employment agreement.

Loss on Extinguishment or Modification of Long-Term Debt

During the first half of 2014, we recorded a charge of \$59 million associated with debt redemption and refinancing transactions completed during the first quarter of 2014. These charges consisted of call premiums, the write-off of unamortized debt issuance costs and original issue discount ("OID") associated with the extinguished debt and other expenses not eligible for capitalization. (Refer to Note 4, "Debt," in the accompanying Condensed Consolidated Financial Statements for further discussion about the transactions described in this section.)

During the second quarter and first half of 2013, we recorded charges of \$59 million and \$81 million, respectively, in the accompanying Condensed Consolidated Statement of Operations associated with the extinguishment and modification of existing debt and the issuance of new term loans. These charges consisted of the write-off of unamortized debt issuance costs, OID and other expenses not eligible for capitalization.

Other Expense, Net

Net interest expense in the second quarter and first half of 2014 included interest expense of \$85 million and \$190 million, respectively, partially offset by interest income of \$3 million and \$6 million, respectively. Net interest in the second quarter and first half of 2013 included interest expense of \$126 million and \$248 million, respectively, partially offset by interest income of \$1 million and \$2 million, respectively. The decrease in interest expense is due to the debt redemption accomplished with the net proceeds of the equity offering and the term loan refinancing transaction that occurred during the first quarter of 2014, as well as multiple refinancing transactions that occurred over the course of 2013.

As a result of the capital structure changes, we have reduced our outstanding indebtedness by \$530 million and annualized interest expense by approximately \$150 million, based on current interest rates, over the course of 2013 and the first half of 2014, and reduced our weighted average cash interest rate from 7.1% at June 28, 2013 to 5.5% at July 4, 2014.

Income Tax Expense

During the second quarter and first half of 2014, we recorded an income tax provision of \$11 million and \$27 million, respectively, predominately related to our foreign operations. The income tax provision recorded during the second quarter and first half of 2014 included income tax expense of \$2 million and \$6 million, respectively, associated with discrete events largely related to an increase in the domestic valuation allowance resulting from the deferred tax asset created by the excess tax benefit from share-based awards during the first half of 2014. Excluding discrete tax items, income tax expense was \$9 million and \$21 million in the second quarter and first half of 2014, respectively. These amounts primarily reflect tax expense attributable to income earned in non-U.S. jurisdictions. The increase in tax expense in the second quarter and first half of 2014 as compared to the prior year periods reflects higher profitability attributable to our non-U.S. operations.

For the second quarter and first half of 2013, we recorded an income tax provision of \$6 million and \$16 million, respectively, which related primarily to our foreign operations. These provisions included a \$1 million tax benefit associated with discrete events related primarily to the reversal of tax liabilities partially offset by withholding tax on intellectual property royalties recorded during the second quarter of 2013. Excluding discrete tax items, income tax expense was \$5 million and \$15 million in the second quarter and first half of 2013, respectively.

Although the Company is a Bermuda entity with a statutory income tax rate of zero, the earnings of many of the Company's subsidiaries are subject to taxation in the U.S. and other foreign jurisdictions. Our annual effective tax rate is impacted by the mix of earnings and losses by taxing jurisdictions and was different from the Bermuda statutory rate of zero due to (i) income tax expense (benefit) incurred by subsidiaries operating in jurisdictions that impose an income tax, (ii) the mix of earnings and losses across various taxing jurisdictions, (iii) a foreign capital investment incentive providing for enhanced tax deductions associated with capital expenditures in one of our foreign manufacturing facilities and (iv) the effect of valuation allowances and uncertain tax positions. We record minimal tax expense on our U.S. earnings due to valuation allowances recorded on substantially all the Company's U.S. net deferred tax assets, as we have incurred cumulative losses in the United States. (Refer to Note 7, "Income Taxes," in the accompanying Condensed Consolidated Financial Statements for more information regarding our income tax expense.)

Liquidity and Capital Resources

Cash and Cash Equivalents

Of the \$744 million of cash and cash equivalents at July 4, 2014, \$291 million is attributable to our U.S. subsidiaries and \$453 million is attributable to our foreign subsidiaries. The repatriation of the funds of these foreign subsidiaries could be subject to delay and potential tax consequences, principally with respect to withholding taxes paid in foreign jurisdictions.

Operating Activities

We generated cash flow from operations of \$144 million and \$139 million in the first half of 2014 and 2013, respectively. The increase in cash generated from operations is primarily attributable (i) higher sales and resulting profitability, (ii) lower cash paid for interest as a result of various debt redemption and refinancing transactions that occurred during 2013 and the first half of 2014, (iii) lower payments for employee severance and (iv) the strategic reduction of days of inventory on hand. These benefits were partially offset by higher payments for incentive compensation during the first half of 2014 along with higher intellectual property transaction proceeds and the receipt of a withholding tax rebate during the first half of 2013.

Our days of inventory on hand decreased to 98 days at July 4, 2014 from 110 days at December 31, 2013 and 112 days at June 28, 2013. The decrease in days of inventory on hand from the prior year period is due to consumption of inventory due to increased demand along with an overall focus on reducing days of inventory on hand to what we believe better corresponds to a balanced level of inventory for our business operating conditions. Our days sales outstanding increased to 45 days at July 4, 2014 from 33 days at December 31, 2013 and 35 days at June 28, 2013. The sequential increase in days sales outstanding was the result of changes in payment terms implemented with specific customers and order linearity during the second quarter of 2014, which also impacted the accounts receivable balance in the comparative periods. We expect days sales outstanding to remain near the level achieved during the second quarter of 2014 going forward. Our days purchases outstanding increased to 61 days at July 4, 2014 from 60 days at December 31, 2013 and 57 days at June 28, 2013, reflecting the timing of payments on our payables.

Investing Activities

Our net cash utilized for investing activities was \$167 million and \$91 million in the first half of 2014 and 2013, respectively. Our investing activities are driven primarily by capital expenditures and payments for purchased licenses and other assets. The cash utilized for investing activities in the first half of 2014 increased from the first half of 2013 and was predominately the result of increased capital expenditures, which were \$112 million and \$62 million for the first half of 2014 and 2013, respectively, and represented 5% and 3% of net sales, respectively. The higher capital expenditures are associated with increasing our manufacturing capacity to meet the increased demand primarily from our RF and microcontroller customers. In addition, the cash paid for purchased licenses and other assets increased to \$44 million from \$34 million in the first half of 2013. The remaining \$11 million of cash utilized in the first half 2014 related primarily to a business acquisition completed during the second quarter of 2014 under which we acquired various intangible assets and inventory. The \$6 million of proceeds from the sale of property, plant and equipment during the first half of 2013 were primarily attributable to the sale of certain tools and equipment located at our Toulouse, France manufacturing facility.

Financing Activities

Our net cash provided by financing activities was \$18 million and \$32 million in the first half of 2014 and 2013, respectively. Cash provided by financing activities in the first half of 2014 included (i) \$590 million of proceeds, net of transaction costs, related to funds received from lenders under the term loan refinancing and revolver modification transactions which occurred in the first quarter of 2014 and (ii) \$717 million of net proceeds from the Q1 2014 Equity Offering. Additionally, cash provided by financing activities in 2014 included \$39 million of proceeds from the exercise of stock options and employee share purchase program (ESPP) share purchases and \$5 million of excess tax benefits resulting from deductions related to equity compensation in excess of compensation recognized for financial reporting. Cash flows utilized for financing activities in the first half of 2014 included \$1.3 billion of payments on debt obligations including i) payments of \$718 million associated with the extinguishment of approximately \$680 million of indebtedness along with \$38 million of call premiums in connection with the use of proceeds from the Q1 2014 Equity Offering, ii) payments of \$597 million to lenders in connection with the \$2.7 billion term loan refinancing transaction completed in the first quarter of 2014 and iii) \$18 million of amortization payments on the term loans. (Refer to Note 4, "Debt," in the accompanying Condensed Consolidated Financial Statements for further information regarding the debt transactions referenced in this section, Note 6, "Share and Equity-based Compensation," for further information on ESPP and Note 7, "Income Taxes," for further information on the tax benefit.)

Cash flows related to financing activities in the first half of 2013 included (i) the prepayment of term loans totaling \$2,711 million in connection with a debt refinancing transaction that occurred during the first quarter of 2013, (ii) the redemption of a portion of our indebtedness, including payment of the related make-whole premiums, totaling \$495 million in connection with a debt refinancing transaction that occurred during the second quarter of 2013 along with (iii) \$7 million of quarterly principal payments on the term loans. These cash outflows were partially offset by the receipt of (i) \$2,707 million in net proceeds from the issuance of new term loans during the first quarter of 2013 and (ii) \$493 million in net proceeds from the

issuance of additional indebtedness during the second quarter of 2013. Additionally, cash provided by financing activities in the first half of 2013 included \$46 million of proceeds from the exercise of stock options and ESPP share purchases.

First Quarter of 2014 Revolver Amendment and Debt Redemption Transactions

On February 10, 2014, Freescale Inc. entered into an amendment to its existing revolving credit facility which became effective on February 18, 2014 (the "Q1 2014 Revolver Amendment"). Pursuant to the amendment, the existing revolving credit facility was replaced with a new revolving credit facility with an aggregate of \$400 million of commitments (the "2019 Revolver"). The amendment also extends the maturity of the new revolving credit facility to February 1, 2019. Except as described above, the 2019 Revolver is subject to substantially the same terms and conditions as the existing revolving credit facility including the same pro rata split between United States Dollar availability and alternative currency availability.

On March 20, 2014, after the requisite notice period, Freescale Inc. utilized approximately \$717 million of net proceeds from the equity offering, along with cash on hand, to redeem \$264 million of outstanding senior subordinated 10.125% notes due 2016, \$57 million of outstanding senior unsecured floating rate notes due 2014 and \$359 million of senior unsecured 8.05% notes due 2020 ("8.05% Unsecured Notes") and to pay call premiums of \$38 million and accrued interest of \$11 million.

First Quarter of 2014 Term Loan Refinancing Transaction

On March 4, 2014, Freescale, Inc. entered into an amendment and refinancing agreement to its senior secured term loan facilities, which effectively (i) lowered the interest rate of our existing \$347 million senior secured term loan facility maturing in December 2016 (the "2016 Term Loan") and extended the maturity of the 2016 Term Loan to March 2020 to coincide with the maturity of its existing \$2.37 billion senior secured term loan facility maturing in March 2020 (the "2020 Term Loan"), and (ii) lowered the interest rate applicable to the 2020 Term Loan in a transaction referred to as the "Q1 2014 Term Loan Refinancing Transaction."

In connection with this transaction, (i) a portion of the existing lenders under the 2016 Term Loan agreed to the lower interest rate and extended maturity, (ii) a portion of the existing lenders under the 2020 Term Loan agreed to the lower interest rate, and (iii) Freescale used the proceeds of new senior secured term loans to refinance in full the 2016 Term Loan lenders and the 2020 Term Loan lenders who did not agree to the amendment. As a result, the amended 2016 Term Loan, the amended 2020 Term Loan and the new senior secured term loan, now have identical terms and will be treated as a single tranche of senior secured term loans with an aggregate outstanding principal amount of \$2.72 billion, collectively referred to as the "Amended 2020 Term Loan."

The Amended 2020 Term Loan was issued at par, but was originally recorded at a \$21 million discount, reflecting a portion of the remaining OID previously attributable to the 2020 Term Loan which was deemed exchanged for the Amended 2020 Term Loan. A portion of the proceeds from the issuance of the Amended 2020 Term Loan were used to prepay portions of the 2016 and 2020 Term Loans, thus relieving Freescale Inc., Freescale Ltd. and certain other Freescale Ltd. subsidiaries of their obligations associated with that liability. A significant portion of our lenders under the Amended 2020 Term Loan were previously lenders under the 2016 and 2020 Term Loans, while some of the funds from the issuance of the Amended 2020 Term Loan were from new lenders.

Credit Facility

At July 4, 2014, Freescale Inc.'s senior secured credit facilities (the "Credit Facility") included (i) \$2,706 million outstanding under the Amended 2020 Term Loan, (ii) \$794 million outstanding under the senior secured term loan facility maturing in 2021 ("2021 Term Loan") and (iii) the 2019 Revolver, including letters of credit and swing line loan sub-facilities, with a committed capacity of \$400 million. The spread over LIBOR with respect to the Amended 2020 Term Loan is 3.25%, with a LIBOR floor of 1.00%, resulting in an effective interest rate of 4.25% at July 4, 2014. The spread over LIBOR with respect to 2021 Term Loan is 3.75%, with a LIBOR floor of 1.25%, resulting in an effective interest rate of 5.00% at July 4, 2014. At July 4, 2014, the available capacity under the 2019 Revolver was \$384 million, as reduced by \$16 million of outstanding letters of credit. Under the third amended and restated credit agreement as of March 1, 2013 as amended by the Q1 2014 Revolver Amendment and the Q1 2014 Term Loan Refinancing Transaction (the "Credit Agreement"), Freescale Inc. is required to repay a portion both of the Amended 2020 Term Loan and 2021 Term Loan in quarterly installments in aggregate annual amounts equal to 1% of the initial outstanding balance, or approximately \$9 million a quarter.

Senior Notes

Freescale Inc. had an aggregate principal amount of \$2,313 million in senior notes outstanding at July 4, 2014, consisting of (i) \$500 million of 5.00% senior secured notes due 2021 ("5.00% Secured Notes"), (ii) \$960 million of 6.00% senior secured notes due 2022 ("6.00% Secured Notes"), (iii) \$473 million of 10.75% senior unsecured notes due 2020 ("10.75% Unsecured Notes") and (iv) \$380 million of 8.05% Unsecured Notes (collectively, the "Senior Notes"). With regard to these notes, interest is payable semi-annually in arrears as follows: (i) every May 15th and November 15th for the 5.00% Secured Notes; (ii) every May 15th and November 15th for the 6.00% Secured Notes; (iii) every February 1st and August 1st for the 10.75% Unsecured Notes; and (iv) every February 1st and August 1st for the 8.05% Unsecured Notes.

Hedging Transactions

Freescal Inc. has previously entered into interest rate swap agreements and interest rate cap agreements with various counterparties as a hedge of the variable cash flows of our variable interest rate debt. In connection with the refinancing transaction in the first quarter of 2013, under which the majority of our debt essentially became fixed rate debt as long as LIBOR rates remain below the respective LIBOR floors on our variable rate term loans, we effectively terminated all of these agreements. Subsequent to the end of the second quarter of 2014, we entered into interest rate swap agreements to hedge a portion of our variable rate exposure in 2016 through 2018. We continue to monitor the interest rate environment and may opportunistically enter into interest rate swap contracts or similar arrangements to hedge a portion of our exposure to interest rate risk at the time we expect LIBOR rates to exceed the LIBOR floors on our variable rate debt. (Refer to Note 5, "Risk Management," in the accompanying Condensed Consolidated Financial Statements for further details of these hedging agreements.)

Debt Service

We are required to make debt service principal payments under the terms of our debt agreements. As of July 4, 2014, future obligated debt payments are \$18 million during the remainder of 2014, \$35 million in 2015, \$35 million in 2016, \$35 million in 2017, \$35 million in 2018, \$35 million in 2019 and \$5,620 million thereafter.

Fair Value

At July 4, 2014, the fair value of the aggregate principal amount of our long-term debt was approximately \$5,944 million, exclusive of \$35 million of current maturities, which was determined based upon quoted market prices. Since considerable judgment is required in interpreting market information, the fair value of the long-term debt is not necessarily the amount which could be realized in a current market exchange.

Refer to Note 4, "Debt," in the accompanying Condensed Consolidated Financial Statements for more detail on the notes described in this section.

Adjusted EBITDA

Adjusted EBITDA is calculated in accordance with the Credit Agreement and the indentures governing the senior secured and senior unsecured notes (the "Indentures"). Adjusted EBITDA is net earnings (loss) adjusted for certain non-cash and other items that are included in net earnings (loss). Freescale Inc. is not subject to any maintenance covenants under its existing debt agreements and is therefore not required to maintain any minimum specified level of Adjusted EBITDA or maintain any ratio based on Adjusted EBITDA or otherwise. However, our ability to engage in specified activities is tied to ratios under Freescale Inc.'s debt agreements based on Adjusted EBITDA, in each case subject to certain exceptions. Our subsidiaries are unable to incur any indebtedness under the Indentures and specified indebtedness under the Credit Agreement, pay dividends, make certain investments, prepay junior debt and make other restricted payments, in each case not otherwise permitted by our debt agreements, unless, after giving effect to the proposed activity, the fixed charge coverage ratio (as defined in the applicable indenture) would be at least 2.00:1 and the senior secured first lien leverage ratio (as defined in the Credit Agreement) would be no greater than 4.00:1. Also, our subsidiaries may not incur certain indebtedness in connection with acquisitions unless, prior to and after giving effect to the proposed transaction, the total leverage ratio (as defined in the Credit Agreement) is no greater than 6.50:1, except as otherwise permitted by the Credit Agreement. In addition, except as otherwise permitted by the applicable debt agreement, we may not designate any subsidiary as unrestricted or engage in certain mergers unless, after giving effect to the proposed transaction, the fixed charge coverage ratio would be at least 2.00:1 or equal to or greater than it was prior to the proposed transaction and the senior secured first lien leverage ratio would be no greater than 4.00:1. We are also unable to have liens on assets securing indebtedness without also securing the notes unless the consolidated secured debt ratio (as defined in the applicable indenture) would be no greater than 3.25:1 after giving effect to the proposed lien, except as otherwise permitted by the Indentures. Accordingly, we believe it is useful to provide the calculation of Adjusted EBITDA to investors for purposes of determining our ability to engage in these activities. As of July 4, 2014, Freescale Inc. was in compliance with the covenants under the Credit Facility and the Indentures and met the fixed charge coverage ratio and the total leverage ratio but did not meet the senior secured ratio and the consolidated secured debt ratio. As of July 4, 2014, Freescale Inc.'s total leverage ratio was 5.10:1, senior secured first lien leverage ratio was 4.22:1, the fixed charge coverage ratio was 3.08:1 and the consolidated secured debt ratio was 4.97:1. Accordingly, we are currently restricted from making certain investments and incurring liens on assets securing indebtedness, except as otherwise permitted by the Credit Agreement and the Indentures. The fact that we do not meet some of these ratios does not result in any default under the Credit Agreement or the Indentures.

Adjusted EBITDA is a non-U.S. GAAP measure. Adjusted EBITDA does not represent, and should not be considered an alternative to, net earnings (loss), operating earnings (loss), or cash flow from operations as those terms are defined by accounting principles generally accepted in the United States of America (U.S. GAAP), and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. Although Adjusted EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements by other companies, our calculation of Adjusted

EBITDA is not necessarily comparable to such other similarly titled captions of other companies. The calculation of Adjusted EBITDA in the Indentures and the Credit Facility allows us to add back certain charges that are deducted in calculating net earnings (loss). However, some of these expenses may recur, vary greatly and are difficult to predict. Further, our debt instruments require that Adjusted EBITDA be calculated for the most recent four fiscal quarters. We do not present Adjusted EBITDA on a quarterly basis. In addition, the measure can be disproportionately affected by quarterly fluctuations in our operating results, and it may not be comparable to the measure for any subsequent four-quarter period or any complete fiscal year.

The following is a reconciliation of net loss, which is a U.S. GAAP measure of our operating results, to Adjusted EBITDA, as calculated pursuant to Freescale Inc.'s debt agreements for the most recent four fiscal quarter period as required by such agreements.

| (in millions) | Twelve Months Ended July 4, 2014 |
|-------------------------------------------------------------------------|----------------------------------------|
| Net loss | \$ (32) |
| Interest expense, net | 421 |
| Income tax expense | 51 |
| Depreciation and amortization expense ⁽¹⁾ | 255 |
| Non-cash share-based compensation expense ⁽²⁾ | 58 |
| Loss on extinguishment or modification of long-term debt ⁽³⁾ | 195 |
| Reorganization of business and other ⁽⁴⁾ | 33 |
| Cost savings ⁽⁵⁾ | 6 |
| Other terms ⁽⁶⁾ | 12 |
| Adjusted EBITDA | <u>\$ 999</u> |

(1) Excludes amortization of debt issuance costs, which are included in interest expense, net.

(2) Reflects non-cash, share-based compensation expense under the provisions of ASC Topic 718, "Compensation – Stock Compensation."

(3) Reflects losses on extinguishments and modifications of our long-term debt.

(4) Reflects items related to our reorganization of business programs and other charges.

(5) Reflects costs savings that we expect to achieve from initiatives commenced prior to December 1, 2009 under our reorganization of business programs that are in process or have already been completed.

(6) Reflects adjustments required by our debt instruments, including business optimization expenses, relocation expenses and other items.

Future Financing Activities

Our primary future cash needs on a recurring basis will be for working capital, capital expenditures and debt service obligations, including debt service principal payments on the term loans. In addition, we expect to spend approximately \$25 million over the remainder of 2014 and approximately \$10 million thereafter in connection with the reorganization plan initiated during 2012, the closure of the Toulouse, France manufacturing facility and the demolition of the Sendai, Japan manufacturing facility; however, the timing of these payments depends on many factors, including the timing of redeployment of existing resources and compliance with local employment laws, and actual amounts paid may vary based on currency fluctuation. We believe that our cash and cash equivalents balance as of July 4, 2014 of \$744 million and cash flows from operations will be sufficient to fund our working capital needs, capital expenditures, restructuring plan and other business requirements for at least the next twelve months. In addition, our ability to borrow under the 2019 Revolver was \$384 million as of July 4, 2014, as reduced by \$16 million of outstanding letters of credit. (Refer to Note 4, "Debt," and Note 9, "Reorganization of Business and Other," in the accompanying Condensed Consolidated Financial Statements for additional discussion of the borrowing abilities and reorganization actions described in this section.)

If our cash flows from operations are less than we expect or we require funds to consummate acquisitions of other businesses, assets, products or technologies, we may need to incur additional debt, sell or monetize certain existing assets or utilize our cash and cash equivalents. In the event additional funding is required, there can be no assurance that future funding will be available on terms favorable to us or at all. Furthermore, our debt agreements contain restrictive covenants that limit our ability to, among other things, incur additional debt and sell assets. We are highly leveraged, and this could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under one or more of our debt agreements. Increases in interest rates could also adversely affect our financial condition. Subsequent to the end of the second quarter of 2014, we entered into interest rate swap agreements to hedge a portion of our variable rate exposure in 2016 through 2018. We continue to monitor the interest rate environment and may opportunistically enter into interest rate swap contracts or similar arrangements to hedge a portion of our exposure to interest rate risk at the time we expect LIBOR rates to exceed the LIBOR floors on our variable rate debt. In the absence of sufficient operating results and resources to service our debt, or as the result of the inability to complete appropriate refinancings and amendments of our debt, we could

face substantial liquidity problems and may be required to seek the disposal of material assets or operations to meet our debt service and other obligations. If we cannot make scheduled payments on our indebtedness, we will be in default under one or more of our debt agreements and, as a result, we would need to take other action to satisfy our obligations or be forced into bankruptcy or liquidation.

As market conditions warrant, or as repurchase obligations under the agreements governing our Credit Facility and Senior Notes may require, we and our major equity holders may from time to time repurchase or redeem debt securities issued by Freescale Inc. through redemptions under the terms of the Indentures, in privately negotiated or open-market transactions, by tender offer or otherwise, or issue new debt in order to refinance or prepay amounts outstanding under the Credit Facility or Senior Notes or for other permitted purposes. Further, depending on market conditions, the strategy for our capital structure and other factors, we also may issue equity securities from time to time in public or private offerings. There can be no assurance, however, that any issuance of equity or debt will occur or be successful.

Off-Balance Sheet Arrangements

We use customary off-balance sheet arrangements, such as operating leases and letters of credit, to finance our business. None of these arrangements has or is likely to have a material effect on our results of operations, financial condition or liquidity.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

As a multinational company, our transactions are denominated in a variety of currencies. We have a foreign exchange hedging process to manage currency risks resulting from transactions in currencies other than the functional currency of our subsidiaries. We use financial instruments to hedge, and therefore attempt to reduce our overall exposure to the effects of currency fluctuations on cash flows. Our policy prohibits us from speculating in financial instruments for profit on exchange rate price fluctuations, from trading in currencies for which there are no underlying exposures, and from entering into trades for any currency to intentionally increase the underlying exposure.

A significant variation of the value of the U.S. dollar against currencies other than the U.S. dollar could result in a favorable impact on our net earnings (loss) in the case of an appreciation of the U.S. dollar, or a negative impact on our net earnings (loss) if the U.S. dollar depreciates relative to these currencies. Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the majority of our net sales, while we incur a significant portion of our costs in currencies other than the U.S. dollar. Certain significant costs incurred by us, such as manufacturing labor costs, research and development, and selling, general and administrative expenses are incurred in the currencies of the countries in which our operations are located.

In order to reduce the exposure of our financial results to fluctuations in exchange rates, our principal strategy has been to naturally hedge the foreign currency-denominated liabilities on our balance sheet against corresponding foreign currency-denominated assets such that any changes in liabilities due to fluctuations in exchange rates are inversely and entirely offset by changes in their corresponding foreign currency assets. In order to further reduce our exposure to U.S. dollar exchange rate fluctuations, we have entered into foreign currency hedge agreements related to the currency and the amount of expenses we expect to incur in countries in which our operations are located. No assurance can be given that our hedging transactions will prevent us from incurring higher foreign currency-denominated costs when translated into our U.S. dollar-based accounts in the event of a weakening of the U.S. dollar on the non-hedged portion of our costs and expenses. (Refer to Note 5, "Risk Management," in our accompanying Condensed Consolidated Financial Statements for further discussion.)

At July 4, 2014, we had net outstanding foreign currency exchange contracts not designated as accounting hedges with notional amounts totaling approximately \$102 million. These forward contracts have original maturities of less than three months. The fair value of the forward contracts was a net unrealized gain of less than \$1 million at July 4, 2014. Forward contract gains of \$1 million during both the second quarter and first half of 2014 were recorded in other expense, net in the accompanying Condensed Consolidated Statement of Operations related to our realized and unrealized results associated with these foreign exchange contracts. Management believes that these financial instruments will not subject us to undue risk of foreign exchange movements because gains and losses on these contracts should offset losses and gains on the assets and liabilities being hedged. The following table shows, in millions of U.S. dollars, the notional amounts of the most significant net foreign exchange hedge positions for outstanding foreign exchange contracts not designated as accounting hedges:

| Buy (Sell) | July 4, 2014 |
|-------------------|-----------------|
| Japanese Yen | \$ 24 |
| Chinese Renminbi | \$ 22 |
| Malaysian Ringgit | \$ 20 |
| Euro | \$ 11 |
| Indian Rupee | \$ (6) |

Foreign exchange financial instruments that are subject to the effects of currency fluctuations, which may affect reported earnings, include financial instruments which are not denominated in the functional currency of the legal entity holding the instrument. Derivative financial instruments consist primarily of forward contracts. Other financial instruments, which are not denominated in the functional currency of the legal entity holding the instrument, consist primarily of cash and cash equivalents, notes and accounts payable and accounts receivable. The fair value of these foreign exchange financial instruments would hypothetically decrease by \$34 million as of July 4, 2014, if the U.S. dollar were to appreciate against all other currencies by 10% of current levels. This hypothetical amount is suggestive of the effect on future cash flows under the following conditions: (i) all current payables and receivables that are hedged were not realized, (ii) all hedged commitments and anticipated transactions were not realized or canceled, and (iii) hedges of these amounts were not canceled or offset. We do not expect that any of these conditions will be realized. We expect that gains and losses on the derivative financial instruments should offset losses and gains on the assets and liabilities being hedged. If the hedged instruments were included in the sensitivity analysis, the hypothetical change in fair value would be immaterial. The foreign exchange financial instruments are held for purposes other than trading.

Instruments used as cash flow hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a cash flow hedge at the inception of the hedging relationship. Accordingly, changes in the fair values of such hedge instruments must be highly correlated with changes in the fair values of underlying hedged items both at inception of the hedge and over the life of the hedge contract. At July 4, 2014, we had forward contracts designated as foreign currency cash flow hedges with a total fair value of a net unrealized gain of \$1 million. These contracts have original maturities of less than 18 months. The following table shows, in millions of U.S. dollars, the notional amounts of the foreign exchange hedge positions for outstanding foreign exchange contracts designated as cash flow hedges as of July 4, 2014:

| Buy (Sell) | July 4, 2014 | Hedged Exposure |
|-------------------|-----------------|-------------------------------------|
| Malaysian Ringgit | \$ 50 | Cost of sales |
| Chinese Renminbi | \$ 51 | Cost of sales |
| | \$ 13 | Selling, general and administrative |
| | \$ 13 | Research and development |
| Japanese Yen | \$ 17 | Cost of sales |
| Euro | \$ (15) | Net sales |

Losses of less than \$1 million and \$1 million during the second quarter and first half of 2014, respectively, were recorded in the accompanying Condensed Consolidated Statement of Operations related to our realized results associated with these cash flow hedges.

Commodity Price Risk

We use gold swap contracts to hedge our exposure to increases in the price of gold wire used in our manufacturing processes. At July 4, 2014, we had outstanding gold swap contracts designated as cash flow hedges with notional amounts totaling 12,500 ounces. All of these outstanding contracts had original maturities of 15 months or less. The fair value of these gold swap contracts was a net unrealized loss of less than \$1 million at July 4, 2014. During both the second quarter and first half of 2014, losses of less than \$1 million were recorded in cost of sales related to the realized results attributable to these contracts. Based on expected gold purchases for the next twelve months, a 10% increase in the price of gold from the price at July 4, 2014 would increase our cost of sales by \$5 million annually, absent our outstanding gold swap contracts, while increasing the fair value of our gold swap contracts by \$2 million. Management believes that these financial instruments will not subject us to undue risk due to fluctuations in the price of gold bullion because gains and losses on these swap contracts should offset losses and gains on the forecasted gold wire expense being hedged.

Interest Rate Risk

At July 4, 2014, we had total indebtedness with an outstanding principal amount of \$5,813 million, including \$3,500 million of variable interest rate debt based on LIBOR. As of July 4, 2014, all of our variable rate debt had LIBOR floors that were above the current LIBOR rates, and therefore, is effectively fixed rate debt while LIBOR rates remain below these LIBOR

floors. A 100 basis point increase in LIBOR rates from their current levels would result in an increase in our interest expense of only \$4 million per year, as the rates would remain below the LIBOR floor on the 2021 Term Loan. During 2013, we effectively terminated our previous interest rate swap agreements by entering into offsetting agreements and as such, a change in LIBOR rates would not affect the cash flows under our interest rate swap arrangements because we have fixed the remaining payment stream under these arrangements. The fair value of our interest rate swap agreements (including outstanding historical swap agreements and their offsetting swap agreements) was a net obligation of \$4 million, which was estimated based on the yield curve at July 4, 2014. Subsequent to the end of the second quarter of 2014, we entered into interest rate swap agreements to hedge a portion of our variable rate exposure in 2016 through 2018. We continue to monitor the interest rate environment and may opportunistically enter into interest rate swap contracts or similar arrangements to hedge a portion of our exposure to interest rate risk at the time we expect LIBOR rates to exceed the LIBOR floors on our variable rate debt.

The fair value of the aggregate principal amount of our long-term debt, exclusive of \$35 million of current maturities, was \$5,944 million at July 4, 2014, based upon quoted market prices. Since considerable judgment is required in interpreting market information, the fair value of the long-term debt is not necessarily indicative of the amount which could be realized in a current market exchange. A 100 basis point change in LIBOR rates would impact the fair value of our long-term debt by \$78 million.

Refer to Note 2, "Other Financial Data," Note 3, "Fair Value Measurement," Note 4, "Debt," and Note 5, "Risk Management," in the accompanying Condensed Consolidated Financial Statements for more information about these financial instruments, their fair values and the financial impact recorded in our results of operations. Other than the change to the fair value of our long-term debt, we experienced no significant changes in market risk during the first half of 2014. However, we cannot provide assurance that future changes in foreign currency rates, commodity prices or interest rates will not have a significant effect on our consolidated financial position, results of operations or cash flows.

Counterparty Risk

Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. We also enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date. On a periodic basis, we review the credit ratings of our counterparties and adjust our exposure as deemed appropriate. As of July 4, 2014, we believe that our exposure to counterparty risk is immaterial.

Item 4: Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15 (e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission (SEC) reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in internal control over financial reporting.* There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1: Legal Proceedings

Refer to Part I, Item 3: "Legal Proceedings" of our Annual Report for further information.

Item 1A: Risk Factors

For a description of risk factors affecting our business and results of operations, please refer to Part I, Item 1A: "Risk Factors" of our Annual Report.

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

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.

Item 3: Defaults Upon Senior Securities

- (a) Not applicable.
- (b) Not applicable.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

Compliance Disclosure

Pursuant to Section 13(r) of the Securities Exchange Act of 1934, as amended, we are required to include certain disclosures in our periodic filings if we or any of our affiliates engaged in certain transactions with Iran or with persons or entities designated under certain executive orders during the period covered by the periodic filing. During the period covered by this report, the Company did not engage in any transactions with Iran or with persons or entities related to Iran.

Funds affiliated with The Blackstone Group ("Blackstone") hold 25% of the total outstanding voting shares of Freescale Holdings GP, Ltd. ("Freescale GP"), the general partner of our largest shareholder, Freescale Holdings L.P. ("Freescale LP") (which owns approximately 65% of the Company's outstanding shares). Blackstone and the Company are parties to a shareholders' agreement under which Blackstone, among other things, has the right to designate two directors to our board of directors. Accordingly, Blackstone may be deemed an "affiliate" of the Company, as that term is defined in Exchange Act Rule 12b-2. We note that Blackstone's most recent Quarterly Report on Form 10-Q reproduced the following disclosure by Travelport Limited ("Travelport"), a Blackstone portfolio company, in connection with Travelport's activities during the first fiscal quarter of 2014.

"As part of our global business in the travel industry, we provide certain passenger travel-related GDS and airline IT services to Iran Air. We also provide certain airline IT services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S. Office of Foreign Assets Control. Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals."

No information was provided with respect to the gross revenues and net profits attributable to Travelport or Blackstone regarding Travelport's activities described above. Travelport is a portfolio company of Blackstone and may be deemed to be an affiliate of Blackstone. Because of the broad definition of "affiliate" in Exchange Act Rule 12b-2, Travelport, through Blackstone's ownership of Freescale GP and Freescale LP, could potentially be deemed to be an affiliate of ours. Other than as described above, we have no knowledge of the activities of Travelport with respect to the transactions with Iran, and we have not independently verified or participated in the preparation of the disclosure described above.

Item 6: Exhibits:

| Exhibit No. | Exhibit Title |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1+ | Freescale Semiconductor 2011 Omnibus Incentive Plan Form Make Whole Restricted Cash Award Agreement between Freescale Semiconductor and Daniel Durn (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on May 9, 2014). |
| 10.2+ | Freescale Semiconductor 2011 Omnibus Incentive Plan Form Make Whole Restricted Share Unit Award Agreement between Freescale Semiconductor and Daniel Durn (incorporated by reference to Exhibit 10.2 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on May 9, 2014). |
| 10.3+* | Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan. |
| 10.4+* | Amended and Restated Freescale Semiconductor, Ltd. Employee Share Purchase Plan. |
| 31.1* | Certification of Chief Executive Officer. |
| 31.2* | Certification of Chief Financial Officer. |
| 32.1# | Section 1350 Certification (Chief Executive Officer). |
| 32.2# | Section 1350 Certification (Chief Financial Officer). |
| 101.ins* | Instance Document. |
| 101.sch* | XBRL Taxonomy Extension Schema Document. |
| 101.cal* | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.def* | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.lab* | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.pre* | XBRL Taxonomy Extension Presentation Linkbase Document. |

+ Indicates a management contract or compensatory plan arrangement.

* Filed herewith.

Furnished, not filed, herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: July 25, 2014

FREESCALE SEMICONDUCTOR, LTD.

By: _____ /s/ DANIEL J. DURN

Daniel J. Durn
Chief Financial Officer

**AMENDED AND RESTATED
FREESCALE SEMICONDUCTOR, LTD.
2011 OMNIBUS INCENTIVE PLAN**

Section 1. Purpose of Plan; Effective Date.

The name of the Plan is the Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “Plan”). The purposes of the Plan are to provide an additional incentive to selected management, employees, directors, independent contractors, and consultants of the Company or its Affiliates (as hereinafter defined) whose contributions are essential to the growth and success of the Company’s business, in order to strengthen the commitment of such persons to the Company and its Affiliates, motivate such persons to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons whose efforts will result in the long-term growth and profitability of the Company. To accomplish such purposes, the Plan provides that the Company may grant Options, Share Appreciation Rights, Restricted Shares, Deferred Shares, Performance Shares, Other Share-Based Awards, Cash-Based Awards or any combination of the foregoing. The Plan is separate and distinct from the Former Plans (as hereinafter defined).

The Plan is hereby amended and restated, effective as of the date of approval by the shareholders of the Company at the annual general meeting held in 2014 (the “Restatement Effective Date”).

Section 1. Definitions.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) “Administrator” means the Board, the Committee of the Board duly appointed to administer the Plan, or the employee or officer to whom administration is delegated, to the extent permitted by applicable law, in accordance with Section 3 hereof.

(b) “Affiliate” means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. An entity shall be deemed an Affiliate of the Company for purposes of this definition only for such periods as the requisite ownership or control relationship is maintained.

(c) “Award” means any Option, Share Appreciation Right, Restricted Share, Deferred Share, Performance Share, Other Share-Based Award or Cash-Based Award granted under the Plan.

- (d) “Award Agreement” means any written agreement, contract or other instrument or document evidencing an Award.
- (e) “Beneficial Owner” (or any variant thereof) has the meaning defined in Rule 13d-3 under the Exchange Act.
- (f) “Board” means the Board of Directors of the Company.
- (g) “Bye-laws” mean the bye-laws of the Company, as may be amended and/or restated from time to time.
- (h) “Cash-Based Award” means cash awarded pursuant to Section 11 hereof, including Awards of restricted cash and cash awarded upon the attainment of Performance Goals.
- (i) “Cause” shall have the meaning assigned to such term in any individual employment or severance agreement or Award Agreement with the Participant or, if no such agreement exists or if such agreement does not define “Cause,” Cause shall mean (i) the Participant commits any act of fraud, intentional misrepresentation or serious misconduct in connection with the business of the Company or any Affiliate, including, but not limited to, falsifying any documents or agreements (regardless of form); (ii) the Participant materially violates any rule or policy of the Company or any Affiliate (A) for which violation an employee may be terminated pursuant to the written policies of the Company or any Affiliate reasonably applicable to such an employee, (B) which violation results in material damage to the Company or any Affiliate or (C) which, after written notice to do so, the Participant fails to correct within a reasonable time; (iii) other than solely due to Disability, the Participant willfully breaches or habitually neglects any material aspect of the Participant’s duties assigned to the Participant by the Company or any Affiliate, which assignment was reasonable in light of the Participant’s position with the Company or its Subsidiaries (all of the foregoing duties, “Duties”); (iv) other than solely due to Disability, the Participant fails, after written notice, adequately to perform any Duties and such failure is reasonably likely to have a material adverse impact upon the Company or any Affiliate or the operations of any of them; provided, that, for purposes of this clause (iv), such a material adverse impact will be solely determined with reference to the Participant’s Duties and annual compensation as such Duties and compensation relate to the Participant’s job classification; (v) the Participant materially fails to comply with a direction from the Chief Executive Officer of the Company, the Board or the board of directors of any Affiliate of the Company with respect to a material matter, which direction was reasonable in light of the Participant’s position with the Company or any Affiliate; (vi) while employed by or providing services to the Company or any Affiliate, and without the written approval of the Board, the Participant performs services for any other corporation or person which competes with the Company or any of its Subsidiaries, or otherwise violates any restrictive covenants contained in any Award Agreement or any other agreement between the Participant and the Company or any Affiliate; (vii) the Participant’s indictment, conviction, or entering a plea of guilty or *nolo contendere* to, a felony (other than a traffic or moving violation) or any crime involving

dishonesty; (viii) the Participant engages in any other action that may result in termination of an employee for cause pursuant to any generally applied standard, of which standard the Participant knew or reasonably should have known, adopted in good faith by the Board or the board of directors of any of the Company's Subsidiaries from time to time but prior to such action or condition; or (ix) any willful breach by the Participant of his fiduciary duties as a director of the Company or any of its Subsidiaries.

(j) "Change in Capitalization" means any (1) merger, amalgamation, consolidation, reclassification, recapitalization, spin-off, spin-out, repurchase or other reorganization or corporate transaction or event, (2) special dividend (whether in the form of cash, Common Shares or other property), share split or reverse share split, (3) combination or exchange of shares, (4) other change in corporate structure, or (5) any other transaction, distribution or action, which, in any such case, the Administrator determines, in its sole discretion, affects the Shares such that an adjustment pursuant to Section 5 hereof is appropriate.

(k) "Change in Control" shall be deemed to have occurred if an event set forth in any one of the following paragraphs shall have occurred:

(1) any Person, other than one or more Qualified Institutional Investors (as such term is defined in the Investors Agreement), is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including the securities beneficially owned by such Person or any securities acquired directly from the Company or any Affiliate thereof) representing 50% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (A) of paragraph (3) below, and provided that for so long as (x) the Partnership (as such term is defined in the Investors Agreement) and its subsidiaries own more than 50% of the combined voting power of the Company's then outstanding securities and (y) one or more Qualified Institutional Investors own more than 50% of the combined voting power of the then outstanding securities of the general partner of the Partnership, such Qualified Institutional Investors will be deemed to beneficially own the combined voting power of the outstanding securities owned by the Partnership and its subsidiaries; or

(2) during any period of twelve consecutive months, the following individuals cease for any reason to constitute a majority of the number of directors then serving on the Board: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of a majority of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or

(3) there is consummated a merger, amalgamation or consolidation of the Company or any Subsidiary thereof with any other corporation, other than (A) a merger, amalgamation or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger, amalgamation or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or the amalgamated company or any parent thereof) at least 50% of the combined voting power of the securities of the Company or such surviving entity or the amalgamated company or any parent thereof outstanding immediately after such merger, amalgamation or consolidation or (B) a merger, amalgamation or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 50% or more of the combined voting power of the Company's then outstanding securities; or

(4) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than (A) a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by shareholders of the Company following the completion of such transaction in substantially the same proportions as their ownership of the Company immediately prior to such sale or (B) a sale or disposition of all or substantially all of the Company's assets immediately following which the individuals who comprise the Board immediately prior thereto constitute at least a majority of the board of directors of the entity to which such assets are sold or disposed or, if such entity is a subsidiary, the ultimate parent thereof.

For each Award that constitutes deferred compensation under Section 409A of the Code, a Change in Control shall be deemed to have occurred under the Plan with respect to such Award, resulting in the payment of such Award, only if a change in the ownership or effective control of the Company or a change in ownership of a substantial portion of the assets of the Company shall also be deemed to have occurred under Section 409A of the Code.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the holders of Common Shares immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

(l) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

(m) “Committee” means the Compensation and Leadership Committee of the Board, or a sub-committee of the Compensation and Leadership Committee, or in the absence of such Committee, the Board. Subject to the discretion of the Board, the Committee shall be composed entirely of individuals who meet the qualifications of an “outside director” within the meaning of Section 162(m) of the Code, a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act and any other qualifications required by the applicable stock exchange on which the Common Shares are traded. If at any time or to any extent the Board shall not administer the Plan, then the functions of the Administrator specified in the Plan shall be exercised by the Committee. Except as otherwise provided in the Bye-laws of the Company or any Committee charter, any action of the Committee with respect to the administration of the Plan shall be taken by a majority vote at a meeting at which a quorum is duly constituted or unanimous written consent of the Committee’s members.

(n) “Common Shares” means the common shares, par value \$0.01 per share, of the Company.

(o) “Company” means Freescale Semiconductor, Ltd. (or any successor company, except as the term “Company” is used in the definition of “Change in Control” above).

(p) “Covered Employee” means a “covered employee,” as such term is defined in Section 162(m)(3) of the Code.

(q) “Deferred Shares” means the right granted pursuant to Section 9 hereof to receive Shares at the end of a specified deferral period or periods and/or upon attainment of specified performance objectives.

(r) “Disability” means, with respect to any Participant, that such Participant (i) as determined by the Administrator in its sole discretion, is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company or an Affiliate thereof.

(s) “Eligible Recipient” means an employee, director, independent contractor or consultant of the Company or any Affiliate of the Company who has been selected as an eligible participant by the Administrator; provided, however, to the extent required to avoid the imposition of additional taxes under Section 409A of the Code, an Eligible Recipient of an Option or a Share Appreciation Right means an employee, director, independent contractor or consultant of the Company or any Subsidiary of the Company who has been selected as an eligible participant by the Administrator.

(t) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time.

(u) “Exercise Price” means, with respect to any Award under which the holder may purchase Shares, the per share price at which a holder of such Award granted hereunder may purchase Shares issuable upon exercise of such Award.

(v) “Fair Market Value” as of a particular date shall mean the fair market value of a Common Share as determined by the Administrator in its sole discretion; provided, however, that (i) if the Common Shares are admitted to trading on a national securities exchange, the fair market value of a Common Share on any date shall be the closing sale price reported for such share on such exchange on such date or, if no sale was reported on such date, on the last day preceding such date on which a sale was reported, (ii) if the Common Shares are admitted to quotation on the New York Stock Exchange (“NYSE”) system or other comparable quotation system and has been designated as a National Market System (“NMS”) security, the fair market value of a Common Share on any date shall be the closing sale price reported for such share on such system on such date or, if no sale was reported on such date, on the last date preceding such date on which a sale was reported, or (iii) if the Common Shares are admitted to quotation on NYSE but has not been designated as an NMS security, the fair market value of a Common Share on any date shall be the average of the highest bid and lowest asked prices of such share on such system on such date or, if both bid and ask prices were not reported on such date, on the last date preceding such date on which both bid and ask prices were reported.

(w) “Former Plans” shall mean the Freescale Holdings 2006 Management Incentive Plan and the Freescale Semiconductor Holdings 2007 Employee Incentive Plan.

(x) “Investors Agreement” shall mean the Investors Agreement by and among Freescale Holdings L.P., Freescale Holdings (Bermuda) I, Ltd., Freescale Holdings (Bermuda) II, Ltd., Freescale Holdings (Bermuda) III, Ltd., Freescale Acquisition Holdings Corp., Freescale Holdings (Bermuda) IV, Ltd., Freescale Acquisition Corporation and Certain Freescale Holdings L.P. Investors and certain stockholders of Freescale Holdings (Bermuda) I, Ltd. dated as of December 1, 2006, as supplemented and amended.

(y) “Option” means an option to purchase Common Shares granted pursuant to Section 7 hereof.

(z) “Other Share-Based Award” means a right or other interest granted pursuant to Section 10 hereof that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Common Shares, including, but not limited to, unrestricted Shares, restricted share units, dividend equivalents or performance units, each of which may be subject to the attainment of Performance Goals

or a period of continued employment or other terms or conditions as permitted under the Plan.

(aa) “Participant” means any Eligible Recipient selected by the Administrator, pursuant to the Administrator’s authority provided for in Section 3 below, to receive grants of Options, Share Appreciation Rights, Restricted Shares, Deferred Shares, Performance Shares, Other Share-Based Awards, Cash-Based Awards or any combination of the foregoing, and, upon his or her death, his or her successors, heirs, executors and administrators, as the case may be.

(bb) “Performance Goals” means performance goals based on one or more of the following criteria: (i) earnings, including one or more of operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, adjusted EBITDA, economic earnings, or extraordinary or special items or book value per share (which may exclude nonrecurring items); (ii) pre-tax income or after-tax income; (iii) earnings per Share (basic or diluted); (iv) operating profit; (v) revenue, revenue growth or rate of revenue growth; (vi) return on assets (gross or net), return on investment, return on capital, or return on equity; (vii) returns on sales or revenues; (viii) operating expenses; (ix) share price or total shareholder return; (x) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (xi) implementation or completion of critical projects or processes; (xii) cumulative earnings per share growth; (xiii) operating margin or profit margin; (xiv) cost targets, reductions and savings, productivity and efficiencies; (xv) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, product quality measures, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, and goals relating to acquisitions, divestitures, joint ventures and similar transactions, and budget comparisons; (xvi) personal professional objectives, including any of the foregoing performance goals, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, formation of joint ventures, research or development collaborations, and the completion of other corporate transactions; (xvii) other measurable business drivers; and (xviii) any combination of, or a specified increase in, any of the foregoing. Where applicable, the Performance Goals may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company or Affiliate thereof, or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies or a combination thereof, all as determined by the Administrator. The Performance Goals may include a threshold level of performance below which no payment shall be made (or no vesting shall occur), levels of performance at which specified payments shall be made (or specified vesting shall occur), and a maximum level of performance above which no additional payment shall be made (or at which full vesting shall occur). Each of the foregoing Performance Goals shall be determined in accordance with generally accepted accounting principles (to the extent

applicable); provided, that, to the extent permitted by Section 162(m) of the Code, as applicable, the Administrator shall have the authority to make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Affiliate thereof or the financial statements of the Company or any Affiliate thereof, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles.

(cc) “Performance Shares” means Shares that are subject to restrictions that lapse upon the attainment of specified performance objectives and that are granted pursuant to Section 9 below.

(dd) “Person” shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any Subsidiary thereof, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary thereof, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of shares of the Company.

(ee) “Register of Members” means the register of members required to be maintained by the Company in accordance with Section 65 of the Companies Act 1981, as amended.

(ff) “Restricted Shares” means Shares granted pursuant to Section 9 below subject to certain restrictions that lapse at the end of a specified period or periods.

(gg) “Retirement” means the Participant’s voluntary termination of employment after the date on which the Participant has reached the age of 55 and has a total of at least five years of continuous employment with the Company or its Subsidiaries, including any employment with Freescale Semiconductor, Inc. prior to December 1, 2006.

(hh) “Shares” means Common Shares reserved for issuance under the Plan, as adjusted pursuant to the Plan, and any successor security (pursuant to a merger, amalgamation, consolidation or other reorganization).

(ii) “Share Appreciation Right” means the right pursuant to an Award granted under Section 8 below to receive an amount equal to the excess, if any, of (i) the aggregate Fair Market Value, as of the date such Award or portion thereof is surrendered, of the Shares covered by such Award or such portion thereof, over (ii) the aggregate Exercise Price of such Award or such portion thereof.

(jj) “Subsidiary” means, with respect to any Person, as of any date of determination, any other Person as to which such first Person owns or otherwise controls, directly or indirectly, more than 50% of the voting shares or other similar interests or a sole general partner interest or managing member or similar interest of such other Person. An entity shall be deemed a Subsidiary of the Company for purposes of this definition only for such periods as the requisite ownership or control relationship is maintained.

(kk) “Transfer” has the meaning set forth in Section 17.

Section 2. Administration.

(a) The Plan shall be administered by the Administrator and shall be administered in accordance with the requirements of Section 162(m) of the Code (but only to the extent necessary and desirable to maintain qualification of Awards under the Plan under Section 162(m) of the Code) and, to the extent applicable, in accordance with the requirements of Rule 16b-3 under the Exchange Act and the rules of the applicable national securities exchange. The Plan is intended to comply with or be exempt from Section 409A of the Code, and shall be administered, construed and interpreted in accordance with such intent. To the extent that an Award, issuance and/or payment is subject to or exempt from Section 409A of the Code, it shall be awarded and/or issued or paid in a manner that will comply with Section 409A of the Code or the applicable exemption of Section 409A, including any applicable regulations or guidance issued by the Secretary of the United States Treasury Department and the Internal Revenue Service with respect thereto.

(b) Pursuant to the terms of the Plan, the Administrator, subject, in the case of any Committee, to any restrictions on the authority delegated to it by the Board, shall have the power and authority, without limitation:

(1) to select those Eligible Recipients who shall be Participants;

(2) to determine whether and to what extent Options, Share Appreciation Rights, Restricted Shares, Deferred Shares, Performance Shares, Other Share-Based Awards or a combination of any of the foregoing, are to be granted hereunder to Participants;

(3) to determine the number of Shares to be covered by each Award granted hereunder;

(4) to determine the terms and conditions, not inconsistent with the terms of the Plan, of each Award granted hereunder (including, but not limited to, (i) the restrictions applicable to Restricted Shares or Deferred Shares and the conditions under which restrictions applicable to such Restricted Shares or Deferred Shares shall lapse, (ii) the performance goals and periods applicable to Awards, (iii) the Exercise Price of each Award, (iv) the vesting schedule applicable to each Award, (v) the number of

Shares or amount of cash or other property subject to each Award and (vi) subject to the requirements of Section 409A of the Code (to the extent applicable), any amendments to the terms and conditions of outstanding Awards, including, but not limited to, extending the exercise period of such Awards and accelerating the vesting schedule of such Awards), and, if the Administrator in its discretion determines to accelerate the vesting of Options and/or Share Appreciation Rights in connection with a Change in Control, the Administrator shall also have discretion in connection with such action to provide that all Options and/or Share Appreciation Rights outstanding immediately prior to such Change in Control shall expire on the effective date of such Change in Control;

(5) to determine the terms and conditions, not inconsistent with the terms of the Plan, which shall govern all written instruments evidencing Options, Share Appreciation Rights, Restricted Shares, Deferred Shares, Performance Shares or Other Share-Based Awards or any combination of the foregoing granted hereunder;

(6) to determine the Fair Market Value;

(7) to determine the duration and purpose of leaves of absence which may be granted to a Participant without constituting termination of the Participant's employment for purposes of Awards granted under the Plan;

(8) to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable; and

(9) to construe and interpret the terms and provisions of the Plan and any Award issued under the Plan (and any Award Agreement relating thereto), and to otherwise supervise the administration of the Plan and to exercise all powers and authorities either specifically granted under the Plan or necessary and advisable in the administration of the Plan.

(c) To the extent permitted by applicable law, the Administrator may at any time delegate to one or more employees or officers of the Company its authority over the administration of the Plan.

(d) All decisions made by the Administrator pursuant to the provisions of the Plan shall be final, conclusive and binding on all persons, including the Company and the Participants. No member of the Board or the Committee, nor any officer or employee of the Company or any Subsidiary thereof acting on behalf of the Board or the Committee, shall be personally liable for any action, omission, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Committee and each and any officer or employee of the Company and of any Subsidiary thereof acting on their behalf shall, to the maximum extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, omission, determination or interpretation.

Section 3. Shares Reserved for Issuance Under the Plan.

(a) Subject to Section 5 hereof, the number of Common Shares that are reserved and available for issuance pursuant to Awards granted under the Plan is 22,500,000 Shares plus the number of Shares under the Company's 2011 Omnibus Incentive Plan, reserved but unissued and not subject to outstanding awards thereunder as of March 5, 2014, which was 2,853,823 Shares (assumes that the Performance Goals applicable to outstanding Awards are achieved at target).

(b) Subject to Section 5 hereof:

(1) No Participant (including any Participant who is likely to be a Covered Employee) will be granted Options or Share Appreciation Rights for more than 5,000,000 Common Shares during any calendar year.

(2) No Participant who is likely to be a Covered Employee with respect to a calendar year will be granted (A) any Restricted Share, Deferred Share, Performance Share or Other Share-Based Award for more than 3,000,000 Common Shares during any calendar year or (B) a Cash-Based Award in excess of \$10,000,000 during any calendar year.

(c) Shares issued under the Plan may, in whole or in part, be authorized but unissued Shares or Shares that shall have been or may be reacquired by the Company in the open market, in private transactions, or otherwise and held as treasury shares. If any Shares subject to an Award or Common Shares subject to an award granted under the Former Plans are, in either case, forfeited, cancelled, exchanged or surrendered, settled in cash or if an Award or an award granted under the Former Plans otherwise terminates or expires without a distribution of shares to the Participant, such Shares or Common Shares shall, to the extent of any such forfeiture, cancellation, exchange, surrender, settlement, termination or expiration, be available for Awards under the Plan. The reserve of Shares shall not be reduced by any Awards granted in substitution for, or in assumption of, outstanding awards previously granted by an entity acquired by the Company or an Affiliate or with which the Company or Affiliate combines. Notwithstanding the foregoing, Shares surrendered or withheld as payment of either the Exercise Price of an Award (including Shares otherwise underlying an Award of a Share Appreciation Right that are retained by the Company to account for the grant price of such Share Appreciation Right) and/or withholding taxes in respect of an Award shall no longer be available for Awards under the Plan. Notwithstanding this Section 4(b), this Plan is separate and distinct from the Former Plans.

Section 4. Equitable Adjustments.

In the event of any Change in Capitalization, an equitable substitution or proportionate adjustment shall be made, in each case, as may be determined by the Administrator, in its sole discretion, in (i) the aggregate number of Common Shares reserved for issuance under the Plan and the maximum number of Shares that may be

subject to Awards granted to any Participant in any calendar or fiscal year, (ii) the kind, number and Exercise Price subject to outstanding Options and Share Appreciation Rights granted under the Plan, and (iii) the kind, number and purchase price of Shares subject to outstanding Restricted Shares, Deferred Shares, Performance Shares or Other Share-Based Awards granted under the Plan; provided, however, that any fractional shares resulting from the adjustment shall be eliminated; and provided further that no such adjustment shall cause any Award hereunder which is or could be subject to Section 409A of the Code to fail to comply with the requirements of such section. Such other equitable substitutions or adjustments shall be made as may be determined by the Administrator, in its sole discretion. Without limiting the generality of the foregoing, in connection with a Change in Capitalization, the Administrator may provide, in its sole discretion, for the cancellation of any outstanding Award granted hereunder in exchange for payment (if any) in cash or other property having an aggregate Fair Market Value equal to the Fair Market Value of the Shares, cash or other property covered by such Award, reduced by the aggregate Exercise Price or purchase price thereof, if any. The Administrator's determinations pursuant to this Section 5 shall be final, binding and conclusive.

Section 5. Eligibility.

The Participants under the Plan shall be selected from time to time by the Administrator, in its sole discretion, from those individuals that qualify as Eligible Recipients.

Section 6. Options.

(a) General. Each Participant who is granted an Option shall enter into an Award Agreement with the Company, containing such terms and conditions as the Administrator shall determine, in its sole discretion, which Award Agreement shall set forth, among other things, the Exercise Price of the Option, the term of the Option and provisions regarding exercisability of the Option. Notwithstanding the foregoing, except as otherwise determined by the Administrator, the prospective recipient of an Option shall not have any rights with respect to such Award, unless and until such recipient has executed an Award Agreement and delivered a fully executed copy thereof to the Company or, in the discretion of the Administrator, by electronic acceptance of the Award Agreement in the Company's equity recordkeeping system, within a period of sixty (60) days (or such other period as the Administrator may specify) after the award date. The provisions of each Option need not be the same with respect to each Participant. More than one Option may be granted to the same Participant and be outstanding concurrently hereunder. Options granted under the Plan shall be subject to the terms and conditions set forth in this Section 7 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable and set forth in the applicable Award Agreement. Each Option granted hereunder is intended to be a non-qualified Option and is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.

(b) Exercise Price. The Exercise Price of Shares purchasable under an Option shall be determined by the Administrator in its sole discretion at the time of grant; provided, that the Exercise Price is at least its par value, and provided further that in no event shall the Exercise Price of an Option be less than one hundred percent (100%) of the Fair Market Value of the Common Shares on the date of grant; provided that Options granted as a substitute for awards of an entity acquired by the Company or any Affiliate or with which the Company or Affiliate combines may have an Exercise Price that is less than the Fair Market Value of the Common Shares on the date of grant. Unless the Board determines otherwise, the Board shall obtain approval of the Company's shareholders for any repricing of Options including reductions in the Exercise Price, cancelling an Option in exchange for an Option with a lower Exercise Price or cancelling an Option that is out of the money for cash (other than in connection with a Change in Control).

(c) Option Term. The maximum term of each Option shall be fixed by the Administrator, but no Option shall be exercisable more than ten (10) years after the date such Option is granted. Each Option's term is subject to earlier expiration pursuant to the applicable provisions in the Plan and the Award Agreement. Notwithstanding the foregoing, the Administrator shall have the authority to accelerate the exercisability of any outstanding Option at such time and under such circumstances as the Administrator, in its sole discretion, deems appropriate.

(d) Exercisability. Each Option shall be exercisable at such time or times and subject to such terms and conditions, including the attainment of preestablished corporate performance goals, as shall be determined by the Administrator in the applicable Award Agreement. The Administrator may also provide that any Option shall be exercisable only in installments, and the Administrator may waive such installment exercise provisions at any time, in whole or in part, based on such factors as the Administrator may determine in its sole discretion. Notwithstanding anything to the contrary contained herein, an Option may not be exercised for a fraction of a share.

(e) Method of Exercise. Options may be exercised in whole or in part by giving written notice of exercise to the Company specifying the number of whole Shares to be purchased, accompanied by payment in full of the aggregate Exercise Price of the Shares so purchased in cash or its equivalent, as determined by the Administrator. As determined by the Administrator, in its sole discretion, with respect to any Option or category of Options, payment in whole or in part may also be made (i) by means of consideration received under any cashless exercise procedure approved by the Administrator (including the withholding of Shares otherwise issuable upon exercise), (ii) in the form of unrestricted Shares already owned by the Participant which, (x) in the case of unrestricted Shares acquired upon exercise of an Option, have been owned by the Participant for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (iii) any other form of consideration approved by the Administrator and permitted by applicable law or (iv) any combination of the foregoing.

(f) Rights as Shareholder. A Participant shall have no rights to dividends or distributions or any other rights of a shareholder with respect to the Shares subject to an Option until the Participant has given written notice of the exercise thereof, has paid in full for such Shares and has satisfied the requirements of Section 16 hereof.

(g) Termination of Employment or Service.

(1) Unless the applicable Award Agreement provides otherwise, in the event that the employment or service of a Participant with the Company and all Affiliates thereof shall terminate for any reason other than Cause, Retirement, Disability, or death, (A) Options granted to such Participant, to the extent that they are exercisable at the time of such termination, shall remain exercisable until the date that is ninety (90) days after such termination, on which date they shall expire, and (B) Options granted to such Participant, to the extent that they were not exercisable at the time of such termination, shall expire at the close of business on the date of such termination. The ninety (90) day period described in this Section 7(g)(1) shall be extended to one (1) year after the date of such termination in the event of the Participant's death during such ninety (90) day period. Notwithstanding the foregoing, no Option shall be exercisable after the expiration of its term.

(2) Unless the applicable Award Agreement provides otherwise, in the event that the employment or service of a Participant with the Company and all Affiliates thereof shall terminate on account of the Retirement, Disability, or death of the Participant, (A) Options granted to such Participant, to the extent that they were exercisable at the time of such termination, shall remain exercisable until the date that is one (1) year after such termination, on which date they shall expire and (B) Options granted to such Participant, to the extent that they were not exercisable at the time of such termination, shall expire at the close of business on the date of such termination. Notwithstanding the foregoing, no Option shall be exercisable after the expiration of its term.

(3) In the event of the termination of a Participant's employment or service for Cause, all outstanding Options granted to such Participant shall expire at the moment the Company notifies the Participant of termination for Cause, regardless of the actual date of such termination.

(h) Other Change in Employment Status. An Option may be affected, in the sole discretion of the Administrator, both with regard to vesting schedule and termination, by leaves of absence, changes from full-time to part-time employment, partial disability or other changes in the employment status of an Participant.

Section 7. Share Appreciation Rights.

(a) General. Share Appreciation Rights may be granted either alone ("Free Standing Rights") or in conjunction with all or part of any Option granted under the Plan ("Related Rights"). Related Rights may be granted either at or after the time of

the grant of such Option. The Administrator shall determine the Eligible Recipients to whom, and the time or times at which, grants of Share Appreciation Rights shall be made, the number of Shares to be awarded, the price per Share, and all other conditions of Share Appreciation Rights. Notwithstanding the foregoing, no Related Right may be granted for more Shares than are subject to the Option to which it relates and any Share Appreciation Right must be granted with an Exercise Price not less than the Fair Market Value of Common Shares on the date of grant; provided that Share Appreciation Rights granted as a substitute for awards of an entity acquired by the Company or any Affiliate or with which the Company or Affiliate combines may have an Exercise Price that is less than the Fair Market Value of the Common Shares on the date of grant. Unless the Board determines otherwise, the Board shall obtain approval of the Company's shareholders for any repricing of Share Appreciation Rights including reductions in the Exercise Price, cancelling a Share Appreciation Right in exchange for a Share Appreciation Right with a lower Exercise Price or cancelling a Share Appreciation Right that is out of the money for cash (other than in connection with a Change in Control). The provisions of Share Appreciation Rights need not be the same with respect to each Participant. Share Appreciation Rights granted under the Plan shall be subject to the following terms and conditions set forth in this Section 8 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable, as set forth in the applicable Award Agreement.

(b) Awards; Rights as Shareholder. The prospective recipient of a Share Appreciation Right shall not have any rights with respect to such Award, unless and until such recipient has executed an Award Agreement and delivered a fully executed copy thereof to the Company, or, in the discretion of the Administrator, by electronic acceptance of the Award Agreement in the Company's equity recordkeeping system, within a period of sixty (60) days (or such other period as the Administrator may specify) after the award date. Participants who are granted Share Appreciation Rights shall have no rights as shareholders of the Company with respect to the grant or exercise of such rights.

(c) Exercisability.

(1) Share Appreciation Rights that are Free Standing Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator in the applicable Award Agreement.

(2) Share Appreciation Rights that are Related Rights shall be exercisable only at such time or times and to the extent that the Options to which they relate shall be exercisable in accordance with the provisions of Section 7 hereof and this Section 8 of the Plan.

(d) Payment Upon Exercise.

(1) Upon the exercise of a Free Standing Right, the Participant shall be entitled to receive up to, but not more than, that number of Shares equal in value

to the excess of the Fair Market Value as of the date of exercise over the price per share specified in the Free Standing Right multiplied by the number of Shares in respect of which the Free Standing Right is being exercised, with the Administrator having the right to determine the form of payment.

(2) A Related Right may be exercised by a Participant by surrendering the applicable portion of the related Option. Upon such exercise and surrender, the Participant shall be entitled to receive up to, but not more than, that number of Shares equal in value to the excess of the Fair Market Value as of the date of exercise over the Exercise Price specified in the related Option multiplied by the number of Shares in respect of which the Related Right is being exercised, with the Administrator having the right to determine the form of payment. Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the Related Rights have been so exercised.

(3) Notwithstanding the foregoing, the Administrator may determine to settle the exercise of a Share Appreciation Right in cash (or in any combination of Shares and cash).

(e) Termination of Employment or Service.

(5) In the event of the termination of employment or service with the Company and all Affiliates thereof of a Participant who has been granted one or more Free Standing Rights, such rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator in the applicable Award Agreement.

(6) In the event of the termination of employment or service with the Company and all Affiliates thereof of a Participant who has been granted one or more Related Rights, such rights shall be exercisable at such time or times and subject to such terms and conditions as set forth in the related Options.

(f) Term.

(4) The term of each Free Standing Right shall be fixed by the Administrator, but no Free Standing Right shall be exercisable more than ten (10) years after the date such right is granted.

(5) The term of each Related Right shall be the term of the Option to which it relates, but no Related Right shall be exercisable more than ten (10) years after the date such right is granted.

Section 8. Restricted Shares, Deferred Shares and Performance Shares.

(a) General. Restricted Shares, Deferred Shares or Performance Shares may be issued either alone or in addition to other awards granted under the Plan.

The Administrator shall determine the Eligible Recipients to whom, and the time or times at which, Restricted Shares, Deferred Shares or Performance Shares shall be made; the number of Shares to be awarded; the price, if any, to be paid by the Participant for the acquisition of Restricted Shares, Deferred Shares or Performance Shares; the period of time prior to which such shares become vested and free of restrictions on Transfer (the “Restricted Period”), if any, applicable to Restricted Shares, Deferred Shares or Performance Shares; the performance objectives (if any) applicable to Deferred Shares or Performance Shares; and all other conditions of the Restricted Shares, Deferred Shares and Performance Shares. If the restrictions, performance objectives and/or conditions established by the Administrator are not attained, a Participant shall forfeit his or her Restricted Shares, Deferred Shares or Performance Shares, in accordance with the terms of the grant. The provisions of the Restricted Shares, Deferred Shares or Performance Shares need not be the same with respect to each Participant.

(b) Awards and Certificates. The prospective recipient of Restricted Shares, Deferred Shares or Performance Shares shall not have any rights with respect to any such award, unless and until such recipient has executed an Award Agreement and delivered a fully executed copy thereof to the Company, or, in the discretion of the Administrator, by electronic acceptance of the Award Agreement in the Company’s equity recordkeeping system, within a period of sixty (60) days (or such other period as the Administrator may specify) after the award date. Except as otherwise provided below in Section 9(c), (i) each Participant who is granted an award of Restricted Shares or Performance Shares may, in the Company’s sole discretion and in accordance with applicable law, be issued a share certificate in respect of such Restricted Shares or Performance Shares; (ii) any such certificate so issued shall be registered, to the extent applicable, in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to any such Award; and (iii) the Participant shall be entered into the Register of Members.

The Company may require that the share certificates, if any, evidencing Restricted Shares or Performance Shares granted hereunder be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any award of Restricted Shares or Performance Shares, the Participant shall have delivered a stock power, endorsed in blank, relating to the Shares covered by such award.

With respect to Deferred Shares, at the expiration of the Restricted Period, share certificates in respect of such shares of Deferred Shares may, in the Company’s sole discretion and in accordance with applicable law, be delivered to the Participant, or his legal representative, in a number equal to the number of Shares covered by the Deferred Shares award.

Notwithstanding anything in the Plan to the contrary, any Restricted Shares, Deferred Shares (at the expiration of the Restricted Period) or Performance Shares (whether before or after any vesting conditions have been satisfied) may, in the

Company's sole discretion, be issued in uncertificated form pursuant to the customary arrangements for issuing shares in such form.

Further, notwithstanding anything in the Plan to the contrary, with respect to Deferred Shares, at the expiration of the Restricted Period, Shares shall promptly be issued (either in certificated or uncertificated form) to the Participant, unless otherwise deferred in accordance with procedures established by the Company in accordance with Section 409A of the Code, and such issuance shall in any event be made within such period as is required to avoid the imposition of a tax under Section 409A of the Code.

(c) Restrictions and Conditions. The Restricted Shares, Deferred Shares and Performance Shares granted pursuant to this Section 9 shall be subject to the following restrictions and conditions and any additional restrictions or conditions as determined by the Administrator at the time of grant or, subject to Section 409A of the Code, thereafter:

(4) The Administrator may, in its sole discretion, provide for the lapse of restrictions in installments and may accelerate or waive such restrictions in whole or in part based on such factors and such circumstances as the Administrator may determine, in its sole discretion, including, but not limited to, the attainment of certain performance related goals, the Participant's termination of employment or service as a director, independent contractor or consultant to the Company or any Affiliate thereof, or the Participant's death or Disability; provided, however, that the Administrator may not waive the attainment of Performance Goals in the case of any Award that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code. Notwithstanding the foregoing, upon a Change in Control, the outstanding Awards shall be subject to Section 12 hereof.

(5) Except as provided in Section 17 or in the applicable Award Agreement, the Participant shall generally have the rights of a shareholder of the Company with respect to Restricted Shares or Performance Shares during the Restricted Period; provided however, that dividends and dividend equivalents may not be paid with respect to Performance Shares unless and until the Performance Shares are earned by achieving the applicable Performance Goals. Except as provided in Section 17 or in the applicable Award Agreement, the Participant shall generally not have the rights of a shareholder with respect to Shares subject to Deferred Shares during the Restricted Period; provided, however, that, subject to Section 409A of the Code, an amount equal to dividends declared during the Restricted Period with respect to the number of Shares covered by Deferred Shares shall be paid to the Participant as set forth in the Award Agreement, provided that the Participant is then providing services to the Company. Certificates for Shares of unrestricted Common Shares may, in the Company's sole discretion, be delivered to the Participant only after the Restricted Period has expired without forfeiture in respect of such Restricted Shares, Deferred Shares or Performance Shares, except as the Administrator, in its sole discretion, shall otherwise determine.

(6) The rights of Participants granted Restricted Shares, Deferred Shares or Performance Shares upon termination of employment or service as a director, independent contractor, or consultant to the Company or to any Affiliate thereof terminates for any reason during the Restricted Period shall be set forth in the Award Agreement.

(7) The Company has the right, subject to applicable law, to repurchase Restricted Shares and Performance Shares upon specified events determined by the Administrator, including but not limited to events of forfeiture, as set forth in the Award Agreement.

Section 9. Other Share-Based Awards.

The Administrator is authorized to grant Awards to Participants in the form of Other Share-Based Awards, as deemed by the Administrator to be consistent with the purposes of the Plan and as evidenced by an Award Agreement. The Administrator shall determine the terms and conditions of such Awards, consistent with the terms of the Plan, at the date of grant or thereafter, including any Performance Goals and performance periods; provided however, that dividends and dividend equivalents may not be paid with respect to Awards subject to Performance Goals unless and until the Shares under the Award are earned by achieving the applicable Performance Goals. Common Shares or other securities or property delivered pursuant to an Award in the nature of a purchase right granted under this Section 10 shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, Shares, other Awards or other property, as the Administrator shall determine, subject to any required corporate action.

Section 10. Cash-Based Awards.

The Administrator is authorized to grant Awards to Participants in the form of Cash-Based Awards, as deemed by the Administrator to be consistent with the purposes of the Plan and as evidenced by an Award Agreement. The Administrator shall determine the terms and conditions of such Awards, consistent with the terms of the Plan, at the date of grant or thereafter, including any Performance Goals and performance periods. Payments earned hereunder may be decreased or, with respect to any Participant who is not a Covered Employee, increased in the sole discretion of the Administrator based on such factors as it deems appropriate.

Section 11. Special Provisions Regarding Certain Awards.

The Administrator may make Awards hereunder to Covered Employees (or to individuals whom the Administrator believes may become Covered Employees) that are intended to qualify as performance-based compensation under Section 162(m) of the Code. The exercisability and/or payment of such Awards may be subject to the achievement of performance criteria based upon one or more Performance Goals and to certification of such achievement in writing by the Committee. Such performance criteria shall be established in writing by the Committee not later than the time period prescribed

under Section 162(m) of the Code and the regulations thereunder. All provisions of such Awards which are intended to qualify as performance-based compensation under Section 162(m) of the Code shall be construed in a manner to so comply.

Section 12. Accelerated Vesting In Connection With a Change in Control.

Unless otherwise determined by the Administrator or evidenced in an Award Agreement, in the event of a Change in Control:

(a) With respect to each outstanding Award that is assumed or substituted in connection with a Change in Control, in the event of a termination of a Participant's employment or service (other than for Cause) during the 12-month period following such Change of Control, on the date of such termination (i) such Award shall become fully vested and, if applicable, exercisable, (ii) the restrictions, payment conditions, and forfeiture conditions applicable to any such Award granted shall lapse, and (iii) and any performance conditions imposed with respect to such Award shall be deemed to be achieved at target performance levels.

(b) With respect to each outstanding Award that is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change of Control, (i) such Award shall become fully vested and, if applicable, exercisable, (ii) the restrictions, payment conditions, and forfeiture conditions applicable to any such Award granted shall lapse, and (iii) and any performance conditions imposed with respect to such Award shall be deemed to be achieved at target performance levels.

(c) For purposes of this Section 13, an Award shall be considered assumed or substituted for if, following the Change in Control, the Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Award immediately prior to the Change in Control except that, if the Award related to Shares, the Award instead confers the right to receive common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

Notwithstanding any other provision of the Plan, (i) in the event of a Change in Control, except as would otherwise result in adverse tax consequences under Section 409A of the Code, the Administrator may, in its discretion, provide that each Award shall, immediately upon the occurrence of a Change in Control, be cancelled in exchange for a payment in cash or securities in an amount equal to (x) the excess of the consideration paid per Share in the Change in Control over the exercise or purchase price (if any) per Share subject to the Award multiplied by (y) the number of Shares granted under the Award and (ii) with respect to any Award that constitutes nonqualified deferred compensation under Section 409A of the Code, in the event of a Change in Control that does not constitute a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company under Section 409A(a)(2)(A)(v) of the Code and regulations thereunder, such Award shall be settled in

accordance with its original terms or at such earlier time as permitted by Section 409A of the Code.

Section 13. Amendment and Termination.

The Board may amend, alter or terminate the Plan, but no amendment, alteration, or termination shall be made that would impair the rights of a Participant under any Award theretofore granted without such Participant's consent. Unless the Board determines otherwise, the Board shall obtain approval of the Company's shareholders for any amendment that would require such approval in order to satisfy the requirements of Section 162(m) of the Code, any rules of the stock exchange on which the Common Shares are traded or other applicable law, including, without limitation, any repricing of Options or Share Appreciation Rights, reductions in the Exercise Price, cancelling an Option or Share Appreciation Right in exchange for an Option or Share Appreciation Right with a lower Exercise Price or cancelling an Option or Share Appreciation Right that is out of the money for cash (other than in connection with a Change in Control). The Administrator may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to Section 5 of the Plan and the immediately preceding sentence, no such amendment shall impair the rights of any Participant without his or her consent.

Section 14. Unfunded Status of Plan.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

Section 15. Withholding Taxes.

Each Participant shall, no later than the date as of which the value of an Award first becomes includible in the gross income of such Participant for federal and/or state income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any federal, state, or local taxes of any kind required by law to be withheld with respect to the Award. The obligations of the Company under the Plan shall be conditional on the making of such payments or arrangements, and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to such Participant. Whenever cash is to be paid pursuant to an award granted hereunder, the Company shall have the right to deduct therefrom an amount sufficient to satisfy any federal, state and local withholding tax requirements related thereto. Whenever Shares are to be delivered pursuant to an Award, the Company shall have the right to require the Participant to remit to the Company in cash an amount sufficient to satisfy any related federal, state and local taxes to be withheld and applied to the tax obligations. With the approval of the Administrator, a Participant may satisfy the foregoing requirement by electing to have the Company withhold from delivery of Shares or by delivering already owned unrestricted Common

Shares, in each case, having a value not exceeding the minimum federal, state and local taxes required to be withheld and applied to the tax obligations. Such Shares shall be valued at their Fair Market Value on the date of which the amount of tax to be withheld is determined. Fractional share amounts shall be settled in cash. Such an election may be made with respect to all or any portion of the Shares to be delivered pursuant to an Award. The Company may also use any other method of obtaining the necessary payment or proceeds, as permitted by law, to satisfy its withholding obligation with respect to any Option or other Award.

Section 16. Transfer of Awards.

Until such time as the Awards are fully vested and/or exercisable in accordance with the Plan or an Award Agreement, no purported sale, assignment, mortgage, hypothecation, transfer, charge, pledge, encumbrance, gift, transfer in trust (voting or other) or other disposition of, or creation of a security interest in or lien on, any Award or any agreement or commitment to do any of the foregoing (each, a “Transfer”) by any holder thereof in violation of the provisions of the Plan or an Award Agreement will be valid, except with the prior written consent of the Administrator, which consent may be granted or withheld in the sole discretion of the Administrator; provided that any transfers of Awards must be made without consideration. Any purported Transfer of an Award or any economic benefit or interest therein in violation of the Plan or an Award Agreement shall be null and void *ab initio*, and shall not create any obligation or liability of the Company, and any person purportedly acquiring any Award or any economic benefit or interest therein transferred in violation of the Plan or an Award Agreement shall not be entitled to be recognized as a holder of such Shares. Unless otherwise determined by the Administrator in accordance with the provisions of the immediately preceding sentence, an Option may be exercised, during the lifetime of the Participant, only by the Participant or, during any period during which the Participant is under a legal disability, by the Participant’s guardian or legal representative.

Section 17. Continued Employment.

The adoption of the Plan shall not confer upon any Eligible Recipient any right to continued employment or service with the Company or any Affiliate thereof, as the case may be, nor shall it interfere in any way with the right of the Company or any Affiliate thereof to terminate the employment or service of any of its Eligible Recipients at any time. Awards are subject to any clawback policy adopted by the Company from time to time, including, without limitation, policies adopted to comply with applicable law.

Section 18. Term of Plan.

No Award shall be granted pursuant to the Plan on or after the tenth anniversary of the Restatement Effective Date, but Awards theretofore granted may extend beyond that date.

Section 19. Section 409A of the Code.

The intent of the parties is that payments and benefits under the Plan comply with Section 409A of the Code to the extent subject thereto or an exemption therefrom, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and be administered to be in compliance therewith. Any payments described in the Plan that are due within the “short-term deferral period” as defined in Section 409A of the Code shall not be treated as deferred compensation unless applicable law requires otherwise. Notwithstanding anything to the contrary in the Plan, no payment or distribution under this Plan that constitutes an item of deferred compensation under Section 409A of the Code and becomes payable by reason of a Participant’s termination of employment or service with the Company will be made to such Participant until such Participant’s termination of employment or service constitutes a “separation from service” (as defined in Section 409A of the Code). Notwithstanding anything to the contrary in the Plan, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, amounts that would otherwise be payable and benefits that would otherwise be provided during the six (6) month period immediately following the Participant’s termination of employment shall instead be paid on the first business day after the date that is six (6) months following the Participant’s separation from service (or upon the Participant’s death, if earlier). In addition, for purposes of the Plan, each amount to be paid or benefit to be provided to the Participant pursuant to the Plan, which constitute deferred compensation subject to Section 409A of the Code, shall be construed as a separate identified payment for purposes of Section 409A of the Code. The Company makes no representation that any or all of the payments or benefits described in this Plan will be exempt from or comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to any such payment. The Participant shall be solely responsible for the payment of any taxes and penalties incurred under Section 409A.

Section 20. Governing Law.

The Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law of such state.

Section 21. Awards in Foreign Jurisdictions.

Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which Eligible Recipients are located, or in order to comply with the requirements of any foreign stock exchange, the Administrator, in its sole discretion, shall have the power and authority to: (a) determine which Subsidiaries shall be covered by the Plan; (b) determine which Eligible Recipients outside the United States are eligible to participate in the Plan; (c) modify the terms and conditions of any Award granted to Eligible Recipients outside the United States to comply with applicable foreign laws or listing requirements of any such foreign stock exchange; (d) establish subplans and modify exercise procedures and other terms and

procedures, to the extent such actions may be necessary or advisable (any such subplans and/or modifications shall be attached to the Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Section 4; and (e) take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local governmental regulatory exemptions or approvals or listing requirements of any such foreign stock exchange. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other securities law or governing statute or any other applicable law.

AMENDED AND RESTATED
FREESCALE SEMICONDUCTOR, LTD.
EMPLOYEE SHARE PURCHASE PLAN

WHEREAS, Freescale Semiconductor, Ltd. a Bermuda limited company (the “Company”) established an employee share purchase to provide employees of the Company and employees of subsidiaries designated by the Company with an opportunity to purchase common shares of the Company through offerings of options at a discount so as to further incent them to work for the continued success of the Company and its subsidiaries;

NOW THEREFORE, the Company hereby amends and restates the Freescale Semiconductor Holdings I, Ltd. Employee Share Purchase Plan (hereafter referred to as the Amended and Restated Freescale Semiconductor, Ltd. Employee Share Purchase Plan (the “Plan”)), effective as of the date of approval by the shareholders of the Company at the annual general meeting held in 2014, as follows:

Section 1. Purpose, Share Commitment and Intent.

(a) Purpose. The purpose of the Plan is to provide Employees of the Company and its Subsidiaries that are selected by the Company to participate in the Plan an opportunity to purchase Shares through periodic offerings of options to purchase Shares at a discount and strengthen the commitment of Employees to the Company and Subsidiaries, motivate Employees to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons.

(b) Share Commitment. Subject to adjustment as provided in Section 4(g), the aggregate number of Shares authorized to be sold pursuant to the Options granted under the Plan is 8,110,500 (which number shall include the remaining 1,510,500 Shares authorized to be sold under the Plan prior to this amendment and restatement). In computing the number of Shares available for grant, any Shares relating to Options which are granted, but which subsequently lapse, are cancelled or are otherwise not exercised by the final date for exercise, shall be available for future grants of Options.

(c) Intent. It is the intention of the Company to have the Plan qualify as an “employee share purchase plan” under section 423 of the Code. Therefore, the provisions of the Plan are to be construed in a manner that is consistent with the requirements of section 423 of the Code.

Section 2. Definitions.

For purposes of the Plan, the following terms shall be defined as set forth below:

- (a) “Account” means the bookkeeping account maintained by the Administrative Committee that reflects the amount of payroll deductions credited on behalf of a Participant under the Plan.
- (b) “Administrative Committee” means committee appointed to administer the Plan, which shall be the Committee or another committee consisting of not less than two directors of the Company appointed by the Board, each of whom shall qualify as non-employee directors within the meaning of Securities and Exchange Commission Regulation section 240.16b-3, and in the absence of such committee, the Board.
- (c) “Authorized Leave of Absence” means a bona fide leave of absence from service with the Company or a Subsidiary if the period of the leave does not exceed 90 days, or, if longer, so long as the individual’s right to reemployment with the Company or a Subsidiary is guaranteed either by statute or contract.
- (d) “Base Compensation” means base salary and overtime, excluding payments for shift differentials, incentive compensation, bonuses, and other special payments, fees, allowances or extraordinary compensation.
- (e) “Beneficiary” means the person who is entitled to receive amounts under the Plan upon the death of a Participant as determined under Section 11(m).
- (f) “Board” means the board of directors of the Company.
- (g) “Code” means the United States Internal Revenue Code of 1986, as amended from time to time.
- (h) “Committee” means the Compensation and Leadership Committee of the Board.
- (i) “Company” means Freescale Semiconductor Holdings I, Ltd., a Bermuda exempted limited liability company.
- (j) “Corporation” has the meaning prescribed by section 7701(a)(3) of the Code and Department of Treasury Regulation section 301.7701-2(b). For example, the term Corporation includes a foreign corporation (as defined in section 7701(a)(5) of the Code) and a limited liability company that is treated as a corporation for all United States Federal income tax purposes.
- (k) “Employee” means any individual in the employee-employer relationship with the Company and its Subsidiaries, but excluding (i) any independent contractor, (ii) any consultant, (iii) any individual performing services for the Company who has entered into an independent contractor or consulting agreement with the Company; (iv) any individual

performing services for the Company under an independent contractor or consulting agreement, a purchase order, a supplier or staffing agreement or any other agreement that the Company enters into for services; and (v) any individual whose terms and conditions of employment are governed by a collective bargaining agreement resulting from good faith collective bargaining where participation under the Plan has been the subject of such bargaining and the collective bargaining agents have made a decision on behalf of such employee not to participate in the Plan.

(l) “Employer Corporation” means a Corporation that is, at the time the Option is granted, the employer of the Employee.

(m) “Exercise Date” means the last Trading Day of each Offering Period, which is the day that all Options that eligible Employees have elected to exercise are to be exercised.

(n) “Five Percent Owner” means an owner of five percent or more of the total combined voting power of all classes of shares of the Employer Corporation or of any Subsidiary. An individual is considered to own any shares that are owned directly or indirectly by or for his brothers and sisters (whether by whole or half-blood), spouse, ancestors and lineal descendants. For purposes of determining whether an Employee is a Five Percent Owner, an Employee is considered to own shares that the Employee may purchase under outstanding options (including incentive stock options, nonqualified stock options, options granted under the Plan or any other stock options). Further, for purposes of determining whether an Employee is a Five Percent Owner, the rules of section 424 of the Code (relating to attribution of share ownership) shall apply. Accordingly, for purposes of determining whether an Employee is a Five Percent Owner, (i) the Employee is considered as owning the shares owned, directly or indirectly, by or for the Employee’s brothers or sisters (whether by the whole or half blood), spouse, ancestors and lineal descendants and (ii) shares owned, directly or indirectly, by or for a corporation, partnership, estate or trust is considered as being owned proportionately by or for its shareholders, partners, or beneficiaries. The determination of the percentage of the total combined voting power of all classes of shares of the Company or any Subsidiary that are owned by an individual is made by comparing the voting power or value of the shares owned (or treated as owned) by the individual to the aggregate voting power of all shares actually issued and outstanding immediately after the grant of the Option to the individual. The aggregate voting power or value of all shares actually issued and outstanding immediately after the grant of the Option does not include the voting power or value of treasury shares or shares authorized for issue under outstanding options held by the individual or any other person.

(o) “Grant Date” means the first day of each Offering Period, which is the day all eligible Employees are granted an Option under the Plan.

(p) “Highly Compensated Employee” has the meaning specified in section 414(q) of the Code.

(q) “Offering” means a given offering of Options under a Plan.

(r) “Offering Period” means, with respect to a given Offering, the period beginning on the Grant Date and ending on the Exercise Date. The Offering Periods shall begin and end at such times as are specified by the Administrative Committee. Unless and until the Administrative Committee specifies different Offering Periods in writing, there shall be two Offering Periods during a calendar year, the first of which commences on January 1 and ends on June 30 and the second on which begins on July 1 and ends on December 31. In no event shall an Offering Period exceed 27 months.

(s) “Option” means an option granted under the Plan to purchase Shares at the Option Price on the Exercise Date.

(t) “Option Price” means the price per Share to be paid by each Participant upon exercise of an Option, which, subject to the following sentence, shall be 85 percent of the fair market value of a Share on the Exercise Date. Prior to the commencement of an Offering Period, the Board, the Committee or the Administrative Committee may, in lieu of the Option Price specified in the preceding sentence, establish in writing an Option Price for an Offering that is greater than the amount specified in the preceding sentence. The Option Price may be stated as either a percentage or as a dollar amount. The Option Price shall be subject to adjustment under Section 4(g).

(u) “Participant” means a person who is eligible to be granted an Option under the Plan for the applicable Offering.

(v) “Participating Corporation” means the Company and any of its Subsidiaries that is selected for participation in the applicable Offering pursuant to Section 9.

(w) “Person” shall have the meaning given in Section 3(a)(9) of the Securities Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any Subsidiary thereof, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary thereof, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of Shares of the Company.

(x) “Plan” means the Freescale Semiconductor Holdings I, Ltd. Employee Share Purchase Plan, as set out in this document and as it may be amended from time to time.

(y) “Qualified Employee Share Purchase Plan” means a share purchase plan to the extent that section 423 of the Code applies to the plan.

(z) “Retirement” means the Participant’s voluntary termination of employment after the date on which the Participant has reached the age of 55 and has a total of at least five years of continuous employment with the Company or its Subsidiaries, including any employment with Freescale Semiconductor, Inc. prior to December 1, 2006.

(aa) “Shares” means the common shares of the Company, \$0.01 par value per share, or, in the event that the outstanding shares are later changed into or exchanged for a different class of shares or securities of the Company or another corporation, that other share or security. Shares, when issued, may be represented by a certificate or by book or electronic entry.

(bb) “Subsidiary” means, with respect to any Person, as of any date of determination, any other Person as to which such first Person owns or otherwise controls, directly or indirectly, more than 50% of the voting Shares or other similar interests or a sole general partnership interest or managing member or similar interest of such other Person. An entity shall be deemed a Subsidiary of the Company for purposes of this definition only for such periods as the requisite ownership or control relationship is maintained, and only to the extent permitted by section 424 of the Code.

(cc) “Trading Day” means a day on which the New York Stock Exchange is open for trading.

Section 3. Eligibility.

(a) General Requirements. Subject to Section 3(c), each Employee of each Participating Corporation who is not excluded from participation pursuant to Section 3(b) is eligible to participate in a given Offering if the individual is in the employ of a Participating Corporation on the Grant Date; provided that an Employee hired during an Offering Period will be eligible to participate in the next Offering. For purposes of this Section 3(a), the existence of the employment relationship between an individual and a Participating Corporation will be determined under Department of Treasury Regulation section 1.421-1(h). Participation in the Plan by any Employee is voluntary.

(b) Exclusions From Participation. Subject to Section 3(c), under each Offering Options will be granted to all Employees of all Participating Corporations, except that one or more of the following categories of Employees may, at the discretion of the Administrative Committee, be excluded from coverage under an Offering:

(1) *Persons Employed Less Than Two Years*. Employees who have been employed less than two years (or a lesser period of time) as of the Grant Date may be excluded from an Offering, provided that the exclusion is applied in an identical manner to all Employees of every Participating Corporation whose Employees are granted Options under the Offering.

(2) *Persons Customarily Employed Less Than 20 Hours Per Week*. Employees whose customary employment is 20 hours or less per week (or a lesser number of hours per week as may be specified in writing by the Administrative Committee) as of the Grant Date may be excluded from an Offering, provided that the exclusion is applied in an identical manner to all Employees of every Participating Corporation whose Employees are granted Options under the Offering.

(3) *Persons Customarily Employed for Not More Than Five Months During a Calendar Year.* Employees whose customary employment is for not more than five months in any calendar year as of the Grant Date (or a lesser number of months as may be specified in writing by the Administrative Committee) may be excluded from an Offering, provided that the exclusion is applied in an identical manner to all Employees of every Participating Corporation whose Employees are granted Options under the Offering.

(4) *Persons Who Are Highly Compensated Employees.* Employees who are Highly Compensated Employees as of the Grant Date may be excluded from an Offering. Alternatively, Employees who are Highly Compensated Employees with compensation above a certain level as of the Grant Date may be excluded from an Offering. Alternatively, Employees who are both Highly Compensated Employees and officers or subject to the disclosure requirements of section 16(a) of the Securities Exchange Act of 1934 as of the Grant Date may be excluded from an Offering. Any exclusion relating to Highly Compensated Employees must be applied in an identical manner to all Highly Compensated Employees of all Participating Corporations.

(5) *Certain Residents of Foreign Jurisdictions.* Employees who are residents of a foreign jurisdiction (without regard to whether they are also citizens of the United States or resident aliens within the meaning of section 7701(b)(1)(A) of the Code) may be excluded from an Offering if (1) the grant of an Option under the Offering to a citizen or resident of the foreign jurisdiction is prohibited under the laws of such jurisdiction or (2) compliance with the laws of the foreign jurisdiction would cause the Offering to violate the requirements of section 423 of the Code.

(6) *Default Exclusions From Participation.* Unless the Administrative Committee specifies in writing different exclusions are applicable with respect to a given Offering, the following persons shall be excluded from participation in an Offering: (1) Employees whose customary employment is 20 hours or less per week and (2) Employees who are residents of a foreign jurisdiction (without regard to whether they are also citizens of the United States or resident aliens within the meaning of section 7701(b)(1)(A) of the Code) if (a) the grant of an Option under the Offering to a citizen or resident of the foreign jurisdiction is prohibited under the laws of such jurisdiction or (b) compliance with the laws of the foreign jurisdiction would cause the Offering to violate the requirements of section 423 of the Code.

(7) *Use of Exclusions Other Than Default Exclusions From Participation.* If the Administrative Committee determines to apply exclusions from participation with respect to a given Offering that are different than the default exclusions specified in paragraph (f) of this Section 3(b), such exclusions shall be specified in writing. Any such exclusions from participation shall be consistent with the provisions of this Section 3(b).

(c) Limitations Upon Participation by Certain Shareholders. No Employee shall be granted an Option to the extent that the Option would cause the Employee to be a Five Percent Owner immediately after the grant. Accordingly, an Employee who is a Five Percent Owner immediately prior to the Date of Grant for an Offering shall not be granted an Option for such Offering. An Employee who would become a Five Percent Owner immediately after the

grant of an Option only as a result of the grant of the Option shall be granted an Option to purchase no more than the number of whole Shares would not cause him to become a Five Percent Owner.

Section 4. Options.

(a) Terms of an Offering. The terms of an Offering shall be established by the Administrative Committee. The terms shall be set forth in writing and communicated to eligible Employees prior to the Grant Date for the Offering. The terms of an Offering shall include (1) a designation of the Participating Corporations, (2) the identification of any exclusions from participation applicable to the Offering (which exclusions must be permitted under Section 3(b)), (3) the Option Period, and (4) the Option Price. Offerings may be consecutive and overlapping, and the terms of each Offering need not be identical provided that the terms of the Plan and the Offering together satisfy the requirements of this Section 4(a) and Department of Treasury Regulations issued under section 423 of the Code.

(b) Grant of Option. Effective as of the Grant Date of each Offering, the Company shall grant an Option to each Participant which shall be exercisable on the Exercise Date through funds accumulated by the Participant through payroll deductions made during the Offering Period. Each Option grant is subject to the availability of a sufficient number of Shares reserved for purchase under the Plan. In the event there is an insufficient number of shares reserved for purchase under the Plan, the number of shares purchased shall be adjusted as provided in Section 4(h).

(c) Maximum Number of Shares Subject to Option. An Option granted to an Employee for any Offering shall be for that number of whole Shares equal to the least of the number of whole Shares that may be purchased during the Offering Period (1) at the Option Price with the amount credited to the Participant's Account on the Exercise Date, (2) under limitations established by the Administrative Committee or the Committee pursuant to Section 4(d), (3) under the limitation set forth in Section 4(e) or (4) without causing the Employee to become a Five Percent Owner. The number of Shares that may be purchased under an Option shall be subject to adjustment under Section 4(g) and Section 4(h).

(d) Formula or Specific Share Limitation Established by the Company. The Administrative Committee may establish and announce to Participants prior to an Offering a maximum number of Shares that may be purchased by a Participant during the Offering Period. The Administrative Committee or the Committee may specify that the maximum amount of Shares that a Participant may purchase under an Offering is determined on the basis of a uniform relationship to the total compensation or the basic or regular rate of compensation, of all Employees.

(e) Annual \$25,000 Limitation. No Employee will be permitted to purchase Shares under all Qualified Employee Share Purchase Plans of the Employer Corporation and its Subsidiaries at a rate which exceeds \$25,000 in fair market value of the Shares (determined at the time the Option is granted) for each calendar year in which any option granted to the Employee is outstanding at any time. This limitation shall be applied taking into account the

rules set forth in Department of Treasury Regulation section 1.423-2(i) (or a successor regulation). Accordingly, in applying the limitation set forth in this Section 4(e), (1) the right to purchase Shares under an option accrues when the option (or any portion thereof) first becomes exercisable during the calendar year, (2) the right to purchase Shares under an option accrues at the rate provided in the option, but in no case may such rate exceed \$25,000 of fair market value of such Shares (determined at the time such option is granted) for any one calendar year and (3) a right to purchase Shares that has accrued under one option granted pursuant to the Plan may not be carried over to any other option.

(f) Equal Rights and Privileges. All Employees who are granted Options under an Offering must have equal rights and privileges within the meaning of section 423 of the Code and Department of Treasury Regulation section 1.423-2(f). An Offering will not fail to satisfy the requirements of this Section 4(f) if, in order to comply with the laws of a foreign jurisdiction, the terms of an Option granted under the Offering to citizens or residents of such foreign jurisdiction (without regard to whether they are also citizens of the United States or resident aliens within the meaning of section 7701(b)(1)(A) of the Code) are less favorable than the terms of Options granted under the Offering to Employees who are resident in the United States.

(g) Adjustments of Options. In the event of any (1) merger, amalgamation, consolidation, reclassification, recapitalization, spin-off, spin-out, repurchase or other reorganization or corporate transaction or event, (2) ordinary or special dividend (whether in the form of cash, Shares or other property), share split or reverse share split, (3) combination or exchange of Shares, (4) other change in corporate structure, or (5) any other transaction, distribution or action, which, in any such case the Administrative Committee determines, in its sole discretion, affects the Shares such that an adjustment is appropriate, the total number of Shares authorized to be committed to the Plan, the number of Shares subject to each outstanding Option, the Option Price applicable to each Option, and/or the consideration to be received upon exercise of each Option shall be appropriately adjusted by the Administrative Committee or the Committee. In addition, the Committee shall, in its sole discretion, have authority to provide for (a) the acceleration of the Exercise Date of outstanding Options or (b) the conversion of outstanding Options into cash or other property to be received in certain of the transactions specified in this paragraph above upon the completion of the transaction.

(h) Insufficient Number of Shares. If the number of Shares reserved for purchase for any Option Period is insufficient to cover the number of shares which Participants elect to purchase during such Option Period, then the number of Shares which each Participant has a right to purchase on the Exercise Date shall be reduced to the number of Shares which the Administrative Committee shall determine by multiplying the number of Shares reserved under the Plan for such Option Period by a fraction, the numerator of which shall be the number of Shares which the Participant elected to purchase during the Option Period and the denominator of which shall be the total number of Shares which all Participants elected to purchase during such Option Period.

Section 5. Payroll Deductions.

(a) Authorization of Payroll Deductions. For an Employee to participate during a given Offering Period, he must elect to participate in the Offering by authorizing deductions from his Base Compensation prior to the beginning of the Offering Period in accordance with procedures established by the Administrative Committee or the Committee. An Employee who does not authorize payroll deductions from his Base Compensation with respect to a given Offering shall be deemed to have elected to not participate in the Offering. Unless otherwise determined by the Administrative Committee or the Committee, the Participant's payroll deductions shall be limited to 15 percent of his Base Compensation. Subject to a Participant's right to discontinue payroll deductions as set forth in Section 5(c) and Section 6, a Participant may not, during any Offering Period, change his percentage of payroll deduction for that Offering Period. A Participant may not make additional payments to the Participant's Account.

(b) Payroll Deductions Continuing. A Participant's payroll deduction authorization may remain in effect for all ensuing Offering Periods until changed by the Participant, subject to Section 5(a), in accordance with procedures established by the Administrative Committee or the Committee.

(c) Right to Stop Payroll Deductions. A Participant shall have the right to discontinue the Participant's payroll deduction authorization in accordance with procedures established by the Administrative Committee or the Committee.

(d) Accounting for Funds. As of each payroll deduction period, the Participating Corporation shall cause to be credited to the Participant's Account in a ledger established for that purpose the funds withheld from and attributable to the Participant's cash compensation for that period. No interest shall be credited to the Participant's Account at any time. The obligation of the Participating Corporation to the Participant for this Account shall be a general corporate obligation and shall not be funded through a trust nor secured by any assets which would cause the Participant to be other than a general creditor of the Participating Corporation.

(e) Participating Corporation's Use of Funds. All payroll deductions received or held by a Participating Corporation may be used by the Participating Corporation for any corporate purpose, and the Participating Corporation shall not be obligated to segregate such payroll deductions.

(f) Return of Funds. Except as specified herein, as soon as administratively practicable after the expiration of an Offering Period, payroll deductions that are not used to purchase Shares during such Offering Period will be refunded to the Participants without interest. In accordance with procedures established by the Administrative Committee or the Committee, a Participating Corporation may be permitted to apply a Participant's unused payroll deductions to purchase additional Shares during a subsequent Offering Period, but only if the amount so applied does not exceed the value of a fractional share that the Participant could not purchase

during the preceding Offering Period (because purchases of fractional shares are not permitted under the Plan).

Section 6. In Service Withdrawal, Termination or Death.

(a) In Service Withdrawal. A Participant may, at any time on or before 15 days prior to the Exercise Date, or such other date as shall be selected by the Administrative Committee or the Committee from time to time, elect to withdraw all of the funds then credited to the Participant's Account by giving notice in accordance with the rules established by the Administrative Committee or the Committee. The amount elected to be withdrawn by the Participant shall be paid to the Participant as soon as administratively feasible. Any election by a Participant to withdraw the Participant's cash balance under the Plan terminates the Participant's right to exercise the Participant's Option on the Exercise Date and the Participant's entitlement to elect any further payroll deductions for the then-current Offering Period. If the Participant wishes to participate in any future Offering Period, he must file a new payroll deduction election within the time frame required by the Administrative Committee or the Committee for participation for that Offering Period.

(b) Termination of Employment Prior to the Exercise Date. Except as specified in Section 6(d) and Section 6(e), if a Participant's employment with the Company and all Subsidiaries is terminated for any reason, the Option granted to the Participant for that Offering Period shall lapse. If a Participant is on an Authorized Leave of Absence, for purposes of the Plan, the Participant's employment with the Company and all Subsidiaries shall be deemed to be terminated on the later of the 91st day of such leave or the date through which the Participant's employment is guaranteed either by statute or contract. The Participant's funds then credited to the Participant's Account shall be returned to the Participant as soon as administratively feasible.

(c) Termination of Employment due to Death. If a Participant's employment with the Company and all Subsidiaries is terminated due to death, the Participant's Beneficiary shall be refunded all of the funds then credited to the Participant's Account as of the date of the Participant's death.

(d) Termination of Employment Due to Retirement Prior to the Exercise Date. If a Participant's employment with the Company and all Subsidiaries is terminated due to the Retirement of the Participant, the Participant shall withdraw all of the funds then credited to the Participant's Account as of the date of the Participant's termination date.

(e) Termination as a Result of a Disposition of Assets, a Division or an Entity or a Plant Closing. A Participant whose employment with his Employer is terminated as a result of a disposition of assets, a division or an entity or as a result of a plant closing may, at his election by written notice to the Administrative Committee, either (1) exercise his Option as of the date of his termination of employment, in which event the Employer shall apply the amount accrued under the Plan at that time to the purchase at the Option Price of Shares or (2) request payment of the Participant's prior payroll deductions made under the Plan at that time, in which event the Employer promptly shall make such payment, and thereupon the Participant's interest

in unexercised Options under the Plan shall terminate. If the Participant elects to exercise his Option, the date of his termination of employment shall be deemed to be the Exercise Date for the purpose of computing the amount of the Option Price of the Shares. As determined by the Administrative Committee, a Participant shall be deemed to have terminated his employment with all Employers (A) as a result of a disposition of assets, a division or an entity if such employment is terminated coincident with and as a result of the disposition, by the Employer, the Company or their subsidiaries or Affiliates, of assets, a division or any other business entity (regardless of form) in connection with a sale, exchange, merger or other business transaction, or (B) as a result of a plant closing if such employment is terminated coincident with and as a result of a significant manufacturing plant closing by the Employer, but not as a result of mere district changes or layoffs.

Section 7. Exercise of Option.

(a) Purchase of Shares. Subject to the provisions of the Plan, on the Exercise Date of the applicable Offering Period for an Offering, each Participant's Account shall be used to purchase the maximum number of whole Shares that can be purchased at the Option Price for that Offering. If in any Offering the total number of Shares to be purchased by all Participants exceeds the number of Shares committed to the Plan, then each Participant shall be entitled to purchase only the Participant's pro rata portion of the Shares remaining available under the Plan based on the balances in each Participant's Account as of the Exercise Date. After the purchase of all Shares available on the Exercise Date, all Options granted for the Offering to the extent not used are terminated because no Option shall remain exercisable after the Exercise Date.

(b) Accounting for Shares. After the Exercise Date of each Offering, a report shall be given to each Participant stating the amount of the Participant's Account, the number of Shares purchased and the Option Price.

(c) Issuance of Shares. The Administrative Committee may determine in its discretion the manner of delivery of the Shares purchased under the Plan, which may be by electronic account entry into new or existing accounts, delivery of Shares certificates or any other means as the Administrative Committee, in its discretion, deems appropriate. The Administrative Committee may, in its discretion, hold the Shares certificate for any Shares or cause it to be legended in order to comply with the securities laws of the applicable jurisdiction, or should the Shares be represented by book or electronic account entry rather than a certificate, the Administrative Committee may take such steps to restrict transfer of the Shares as the Administrative Committee considers necessary or advisable to comply with applicable law.

Section 8. Administration.

(a) General. The Plan shall be administered under the direction of the Administrative Committee who shall have the authority to administer the Plan and to make and adopt rules and regulations not inconsistent with the provisions of the Plan or the Code.

(b) Delegation. To the extent permitted by applicable law, the Administrative Committee may delegate to one or more Employees the some or all of its authority over the

administration of the Plan. The Administrative Committee may appoint agents to assist it in administering the Plan.

(c) Quorum and Majority Action. A majority of the Administrative Committee constitutes a quorum for the transaction of business. The vote of a majority of the members present at any meeting shall decide any question brought before that meeting. In addition, the Administrative Committee may decide any question by a vote, taken without a meeting, of a majority of its members via telephone, computer, fax or any other media of communication.

(d) Standard of Judicial Review of Committee Actions. The Administrative Committee has full and absolute discretion in the exercise of its authority under the Plan. Notwithstanding anything to the contrary, any action taken, or ruling or decision made by the Administrative Committee in the exercise of any of its powers and authority under the Plan shall be final and conclusive as to all parties other than the Company, including without limitation all Participants and their beneficiaries, regardless of whether the Administrative Committee or one or more of its members may have an actual or potential conflict of interest with respect to the subject matter of the action, ruling, or decision. No final action, ruling, or decision of the Administrative Committee shall be subject to de novo review in any judicial proceeding; and no final action, ruling, or decision of the Administrative Committee may be set aside unless it is held to have been arbitrary and capricious by a final judgment of a court having jurisdiction with respect to the issue.

Section 9. Participation in Plan By Other Subsidiaries.

(a) Participation Procedure. The Company, acting through the Committee or the Administrative Committee, shall designate the Subsidiaries of the Company that may participate in a given Offering. A Subsidiary that is selected to participate in an Offering shall provide the Company all information required by the Company in order to administer the Plan.

(b) No Joint Venture Implied. Neither the participation in the Plan or an Offering by a Subsidiary nor any act performed by it in relation to the Plan shall create a joint venture or partnership relation between it and the Company or any other Subsidiary.

Section 10. Termination and Amendment of the Plan.

(a) Termination. The Company may, by action of the Board or the Committee, terminate the Plan at any time and for any reason. The Plan shall automatically terminate upon the purchase by Participants of all Shares committed to the Plan, unless the number of Shares committed to the Plan is increased by the Committee or the Board and approved by the shareholders of the Company. Upon termination of the Plan, as soon as administratively feasible there shall be refunded to each Participant the remaining funds in the Participant's Account. The termination of the Plan shall not affect the current Options already outstanding under the Plan to the extent there are Shares committed, unless the Participants agree otherwise.

(b) Amendment. The Board or the Committee has the right to modify, alter or amend the Plan at any time and from time to time to any extent that it deems advisable, including, without limiting the generality of the foregoing, any amendment to the Plan deemed necessary to ensure compliance with section 423 of the Code. The Board or the Committee may suspend the operation of the Plan for any period as it may deem advisable. However, no amendment or suspension shall operate to reduce any amounts previously allocated to a Participant's Account, reduce a Participant's rights with respect to Shares previously purchased and held on the Participant's behalf under the Plan or adversely affect the current Option a Participant already has outstanding under the Plan without the Participant's agreement. Any amendment changing the aggregate number of Shares to be committed to the Plan and any other change for which shareholder approval is required under regulations issued by the Department of Treasury must be approved by the shareholders of the Company in order to be effective.

Section 11. Miscellaneous.

(a) Plan Not An Employment Contract. The adoption and maintenance of the Plan is not a contract between any Participating Corporation and its Employees which gives any Employee the right to be retained in its employment. Likewise, it is not intended to interfere with the rights of any Participating Corporation to discharge any Employee at any time or to interfere with the Employee's right to terminate the Employee's employment at any time.

(b) Options Are Not Transferable. No Option granted to a Participant under the Plan is transferable by the Participant otherwise than by will or the laws of descent and distribution, and must be exercisable, during the Participant's lifetime, only by the Participant. In the event any Participant attempts to violate the terms of this Section 11(b), any Option held by the Participant shall be terminated by the Company and, upon return to the Participant of the remaining funds in the Participant's Account, all of the Participant's rights under the Plan will terminate.

(c) Voting of Shares. Shares held under the Plan for the account of each Participant shall be voted by the holder of record of those Shares in accordance with the Participant's instructions.

(d) No Rights of Shareholder. No eligible Employee or Participant shall by reason of participation in the Plan have any rights of a shareholder of the Company until he acquires Shares as provided in the Plan.

(e) Governmental Regulations. The obligation to sell or deliver the Shares under the Plan is subject to the approval of all governmental authorities required in connection with the authorization, purchase, issuance or sale of the Shares.

(f) Notices. All notices and other communication in connection with the Plan shall be in the form specified by the Administrative Committee and shall be deemed to have been duly given when sent to the Participant at the Participant's last known address or to the Participant's designated personal representative or beneficiary, or to the Participating Corporation or its designated representative, as the case may be. Such notification, at the

discretion of the Administrator, may be made via the Company's electronic recordkeeping system.

(g) Indemnification of the Administrative Committee, the Committee and the Board. In addition to all other rights of indemnification as they may have as directors or as members of the Administrative Committee, the Committee, the members of the Administrative Committee and the Committee shall be indemnified by the Company to the extent permitted under applicable law against the reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option granted under the Plan, and against all amounts paid in settlement (provided the settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any action, suit or proceeding, except in relation to matters as to which it is adjudged in the action, suit or proceeding, that the Administrative Committee or Committee member is liable for gross negligence or willful misconduct in the performance of his duties.

(h) Tax Withholding. At the time a Participant's Option is granted or exercised or at the time a Participant disposes of some or all of the Shares purchased under the Plan, the Participant must make adequate provision for the Participating Corporation's federal, state, foreign or other tax withholding obligations, if any, which arise upon the grant or exercise of the Option or the disposition of the Shares. At any time, the Participating Corporation may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary for the Participating Corporation to meet applicable withholding obligations.

(i) Gender and Number. If the context requires it, words of one gender when used in the Plan shall include the other genders, and words used in the singular or plural shall include the other.

(j) Data Privacy. By participating in the Plan, each Participant agrees to the collection, processing, use and transfer of personal information by the Participating Corporation that employs the Participant, the Company, the Administrative Committee and the Committee in order to administer the Plan.

(k) Notice of Disposition. By becoming a Participant in the Plan, each Participant agrees to promptly give the Administrative Committee notice of any Shares disposed of within the later of (a) one year from the Exercise Date and (b) two years from the Date of Grant with respect to such Shares, and the notice shall include the number of Shares disposed of and the Exercise Date and the Date of Grant for the Shares.

(l) Dispositions in Compliance with Securities Laws. By becoming a Participant in the Plan, each Participant agrees that any dispositions of Shares by such Participant shall be in compliance with the provisions of federal, state and foreign securities laws, including the provisions of Section 16(b) of the Exchange Act.

(m) Beneficiary(ies). At the time of the Participant's or former Participant's death, (a) any cash in the Plan or (b) any cash and Shares in the Account shall be distributed to such Participant's or former Participant's (1) executor or administrator or (2) his heirs at law, if there is no administration of such Participant's or former Participant's estate. The Participant's or former Participant's executor or administrator or heirs at law, if there is no administration of such Participant's or former Participant's estate, shall be such Participant's or former Participant's Beneficiaries. Before any distribution is made, the Administrative Committee may require appropriate written documentation of (a) the appointment of the personal representative of the Participant's estate or (b) heirship.

(n) Severability. Each provision of this Agreement may be severed. If any provision is determined to be invalid or unenforceable, that determination shall not affect the validity or enforceability of any other provision.

(o) Binding Effect. This Agreement shall be binding upon any successor of the Company.

(p) Limitation on Liability. Under no circumstances shall the Company incur liability for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to this Plan or the Company's role as Plan sponsor.

(q) Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law of such state.

CERTIFICATION

I, Gregg A. Lowe, certify that:

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

Dated: July 25, 2014

/s/ GREGG A. LOWE

Gregg A. Lowe
President and Chief Executive Officer,
Freescale Semiconductor, Ltd.

CERTIFICATION

I, Daniel J. Durn, certify that:

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

Dated: July 25, 2014

/s/ DANIEL J. DURN

Daniel J. Durn
Chief Financial Officer,
Freescale Semiconductor, Ltd.

CERTIFICATION

I, Gregg A. Lowe, President and Chief Executive Officer of Freescale Semiconductor, Ltd., certify, for purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the quarterly report on Form 10-Q for the quarterly period ended July 4, 2014 (the "Quarterly Report"), which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and
- (2) information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Freescale Semiconductor, Ltd.

This certificate is being furnished solely for purposes of Section 1350.

Dated: July 25, 2014

/s/ GREGG A. LOWE

Gregg A. Lowe
President and Chief Executive Officer,
Freescale Semiconductor, Ltd.

CERTIFICATION

I, Daniel J. Durn, Chief Financial Officer of Freescale Semiconductor, Ltd., certify, for purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the quarterly report on Form 10-Q for the quarterly period ended July 4, 2014 (the “Quarterly Report”), which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and
- (2) information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Freescale Semiconductor, Ltd.

This certificate is being furnished solely for purposes of Section 1350.

Dated: July 25, 2014

/s/ DANIEL J. DURN

Daniel J. Durn
Chief Financial Officer,
Freescale Semiconductor, Ltd.