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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements as of December 27, 2014 and December 28, 2013 and for each of the three years in the period ended December 27, 2014 and related notes, which are included in this Annual Report on Form 10-K as well as with the other sections of this Annual Report on Form 10-K, including "Part I, Item 1: Business," "Part II, Item 6: Selected Financial Data" and "Part II, Item 8: Financial Statements and Supplementary Data."

Introduction

We are a global semiconductor company with facilities worldwide. Within the global semiconductor industry, we offer primarily:

(i) x86 microprocessors, as standalone devices or as incorporated as an accelerated processing unit (APU), chipsets, discrete graphics processing units (GPUs) and professional graphics; and

(ii) server and embedded processors, dense servers, semi-custom System-on-Chip (SoC) products and technology for game consoles.

In this MD&A, we will describe the results of operations and the financial condition for us and our consolidated subsidiaries, including a discussion of our results of operations for 2014 compared to 2013 and 2013 compared to 2012, an analysis of changes in our financial condition and a discussion of our contractual obligations and off balance sheet arrangements.

Overview

Net revenue for 2014 was $5.5 billion, an increase of 4% compared to 2013 net revenue of $5.3 billion. The increase in net revenue from 2013 was due to a 51% increase in Embedded, Enterprise and Semi-Custom segment revenue, primarily due to higher semi-custom SoC sales. The annual increase in Embedded, Enterprise and Semi-Custom segment net revenue was offset by a 16% decrease in Computing and Graphics segment net revenue. The annual decrease in the Computing and Graphics segment was primarily due to lower desktop processor and chipset sales. While we believe the pace of the decline in the PC market is slowing, our annual Computing and Graphics segment results reflect the ongoing challenges of a competitive consumer PC market.

During 2014, as part of our strategy to transform our business to attain approximately 50% of our revenue from high-growth adjacent markets by the end of 2015, we continued to focus on introducing a more diverse product portfolio. By the end of 2014, we derived approximately 40% of our annual revenues from high-growth markets. In the second quarter of 2014, we announced our ambidextrous computing roadmap to develop custom high-performance ARM and x86 processor cores for 2016. At the same time, we publicly demonstrated the AMD Opteron™ A1100 Series, our first 64-bit ARM-based server processor based on 28 nanometer (nm) technology. During 2014, we continued to experience strong demand for our AMD semi-custom SoCs that are found in Sony PlayStation®4 and Microsoft Xbox One. We also launched a number of new embedded products during 2014, including the second-generation AMD Embedded R-series APU and CPU, the new x86 AMD Embedded G-Series SoC, the AMD Embedded G-Series CPU and the AMD Embedded Radeon™ E8860 GPU. We also continued to develop and introduce differentiated products in 2014. We expanded our notebook APU offerings in 2014 with the introduction of the AMD 2014 Performance Mobile APU designed for ultrathin and high-performance mobile PCs, the AMD Pro A-Series APU for commercial PCs and the third-generation AMD mainstream and low-powered mobile APU designed for commercial and consumer mobile devices. We also launched a number of graphics products in 2014, including the AMD Radeon™ R9 295X2 and AMD Radeon™ R9 285 designed for performance gaming.

In 2014, we made progress in improving our balance sheet by re-profiling our debt maturity schedule. During 2014, we repurchased $487 million in aggregate principal amount of our 6.00% Convertible Senior Notes due 2015 (6.00% Notes), reducing the outstanding aggregate principal amount to $42 million. We repurchased

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$500 million in aggregate principal amount of 8.125% Senior Notes due 2017 (8.125% Notes). We also repurchased $50 million in aggregate principal amount of our 7.75% Senior Notes due 2020 (7.75% Notes) in open market transactions, and $25 million in aggregate principal amount of our 7.50% Senior Notes due 2022 (7.50% Notes). The repurchases of the 7.75% Notes and 7.50% Notes were funded with our Secured Revolving Line of Credit. To assist us in financing these note repurchases, during 2014, we issued $500 million of 7.00% Senior Notes due 2024 (7.00% Notes) and $600 million of 6.75% Senior Notes due 2019 (6.75% Notes). Total debt as of the end December 27, 2014 was $2.2 billion compared to $2.1 billion as of December 28, 2013. Our cash, cash equivalents and marketable securities as of December 27, 2014 were $1.0 billion compared to $1.2 billion as of December 28, 2013.

GLOBALFOUNDRIES

Formation and Accounting

On March 2, 2009, we consummated the transactions contemplated by the Master Transaction Agreement among us, Advanced Technology Investment Company LLC (currently known as Mubadala Technology Investments LLC (Mubadala Tech)) and West Coast Hitech L.P. (WCH), pursuant to which we formed GF. In connection with the consummation of the transactions contemplated by the Master Transaction Agreement, AMD, Mubadala Tech and GF entered into a Wafer Supply Agreement (the WSA), a Funding Agreement (the Funding Agreement) and a Shareholders' Agreement (the Shareholders' Agreement) on March 2, 2009.

At GF's formation on March 2, 2009 and through December 26, 2009, GF was deemed a variable-interest entity, and we were deemed to be GF's primary beneficiary. Accordingly, we consolidated GF under applicable accounting rules. As a result of certain GF governance changes, we deconsolidated GF and accounted for our GF ownership under the equity method of accounting as of December 27, 2009. Following the deconsolidation, GF became our related party.

In the first quarter of 2011, as a result of a contribution to GF by an affiliate of Mubadala Tech and certain GF governance changes noted above, our ownership in GF was diluted, and we concluded that we no longer had the ability to exercise significant influence over GF. Accordingly, we changed our accounting for our investment in GF from the equity method to the cost method of accounting and recognized a dilution gain in investee of approximately $492 million. In the fourth quarter of 2011, we identified indicators of impairment in GF that were deemed other than temporary. We performed a valuation analysis and recorded a non-cash impairment charge of $209 million. The carrying value of our remaining investment in GF after the impairment charge was $278 million as of December 31, 2011.

On March 4, 2012, as partial consideration for certain rights received under a second amendment to the WSA, we transferred to GF all of the remaining capital stock of GF that we owned. In addition, as of March 4, 2012, the Funding Agreement was terminated, and we were no longer party to the Shareholders' Agreement. As a result of these transactions, we no longer owned any GF capital stock as of March 4, 2012.

GF continues to be a related party of us because Mubadala Development Company PJSC (Mubadala) and Mubadala Tech are affiliated with WCH, our largest stockholder. WCH and Mubadala Tech are wholly-owned subsidiaries of Mubadala.

Wafer Supply Agreement

The WSA governs the terms by which we purchase products manufactured by GF. Pursuant to the WSA, we are required to purchase all of our microprocessor and APU product requirements from GF with limited exceptions. If we acquire a third-party business that manufactures microprocessor and APU products, we will have up to two years to transition the manufacture of such microprocessor and APU products to GF.

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The WSA terminates no later than March 2, 2024. GF has agreed to use commercially reasonable efforts to assist us to transition the supply of products to another provider and to continue to fulfill purchase orders for up to two years following the termination or expiration of the WSA. During the transition period, pricing for microprocessor and APU products will remain as set forth in the WSA, but our purchase commitments to GF will no longer apply.

On April 2, 2011, we entered into a first amendment to the WSA. The primary effect of the first amendment was to change the pricing methodology applicable to wafers delivered in 2011 for our microprocessors and APU products. The first amendment also modified our existing commitments regarding the production of certain GPU and chipset products at GF.

On March 4, 2012, we entered into a second amendment to the WSA. The primary effect of the second amendment was to modify certain pricing and other terms of the WSA applicable to wafers for our microprocessor and APU products, to be delivered by GF to us during 2012. Under the terms of the second amendment to the WSA, GF granted us rights to contract with another wafer foundry supplier with respect to specified 28nm products for a specified period of time (the limited waiver of exclusivity). In consideration for the limited waiver of exclusivity, we recorded a charge of $703 million in the first quarter of 2012 consisting of a $425 million cash payment and a $278 million non-cash charge representing the transfer to GF of our remaining investment in GF at fair value.

On December 6, 2012, we entered into a third amendment to the WSA. Pursuant to the third amendment, we modified our wafer purchase commitments for the fourth quarter of 2012 made pursuant to the second amendment to the WSA. In addition, we agreed to certain pricing and other terms of the WSA applicable to wafers for our microprocessor and APU products, to be delivered by GF to us from the fourth quarter of 2012 through December 31, 2013. Pursuant to the third amendment, GF agreed to waive a portion of our wafer purchase commitments for the fourth quarter of 2012. In consideration for this waiver, we agreed to pay GF a fee of $320 million. As a result, we recorded a lower of cost or market charge of $273 million for the write-down of inventory to its market value in the fourth quarter of 2012. The cash impact of this $320 million fee was paid over several quarters, with $80 million paid on December 28, 2012, $40 million paid on April 1, 2013 and $200 million paid on December 31, 2013.

On March 30, 2014, we entered into a fourth amendment to the WSA. The primary effect of the fourth amendment was to establish volume purchase commitments and fixed pricing for the 2014 calendar year as well as to modify certain other terms of the WSA applicable to wafers for some of our microprocessor, graphics processor and semi-custom game console products to be delivered by GF to us during the 2014 calendar year.

We are currently in the process of negotiating a fifth amendment to the WSA, and we expect that our future purchases from GF will continue to be material.

Our total purchases from GF related to wafer manufacturing and research and development activities for 2014, 2013 and 2012 were $1.0 billion, $1.0 billion and $1.2 billion, respectively.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our revenue, inventories, goodwill impairments and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Although actual results have historically been reasonably consistent with management’s expectations, the actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

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Management believes the following critical accounting estimates are the most significant to the presentation of our financial statements and require the most difficult, subjective and complex judgments.

Revenue Allowances. We record a provision for estimated sales returns and allowances on product sales for estimated future price reductions and other customer incentives in the same period that the related revenues are recorded. We base these estimates on actual historical sales returns, historical allowances, historical price reductions, market activity and other known or anticipated trends and factors. These estimates are subject to management's judgment and actual provisions could be different from our estimates and current provisions, resulting in future adjustments to our revenue and operating results.

Inventory Valuation. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence based on projected sales outlook. This evaluation includes analysis of historical sales levels by product and projections of future demand. These projections assist us in determining the carrying value of our inventory. In addition, we write off inventories that we consider obsolete. We adjust the remaining specific inventory balances to approximate the lower of our standard manufacturing cost or market value. Among other factors, management considers forecasted demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining obsolescence and market value. If, in any period, we anticipate future demand or market conditions to be less favorable than our previous estimates, additional inventory write-downs may be required and would be reflected in cost of sales in the period the revision is made. This would have a negative impact on our gross margin in that period. If in any period we are able to sell inventories that were not valued or that had been written down in a previous period, related revenues would be recorded without any offsetting charge to cost of sales, resulting in a net benefit to our gross margin in that period.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired. Goodwill is not amortized, but rather is tested for impairment at least annually, or more frequently if there are indicators of impairment present.

We perform an annual goodwill impairment analysis as of the first day of the fourth quarter of each year. We evaluate whether goodwill has been impaired at the reporting unit level by first determining whether the estimated fair value of the reporting unit is less than its carrying value and, if so, by determining whether the implied fair value of goodwill within the reporting unit is less than the carrying value. The implied fair value of a reporting unit is determined through the application of one or more valuation models common to our industry, including the income, market and cost approaches. While market valuation data for comparable companies is gathered and analyzed, we believe that there has not been sufficient comparability between the peer groups and the specific reporting units to allow for the derivation of reliable indications of value using a market approach. Therefore, we have ultimately employed the income approach which requires estimates of present value of estimated future cash flows. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market condition. The key assumptions we have used to determine the fair value of our reporting units includes projected cash flows for the next 10 years and discount rates ranging from 13% to 19% from 2012 to 2014. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the reporting unit's ability to execute on the projected cash flows. A variance in the discount rate could have a significant impact on the amount of the goodwill impairment charge recorded, if any.

Estimating the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and the determination of appropriate comparable publicly-traded companies. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to individual reporting units to determine the carrying amount of each reporting unit.

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For the annual goodwill impairment analysis in 2014, we determined that the carrying value of the Computing and Graphics reporting unit exceeded its estimated fair value and accordingly an impairment charge of $233 million was recorded, which represented the entire goodwill balance within this reporting unit. The remaining two reporting units' estimated fair values exceeded their carrying value, ranging from approximately 156% to approximately 209%. In estimating the fair value of our reporting units, we took into consideration the challenging industry and market trends that existed as of September 28, 2014, the date of the annual goodwill impairment test for each respective reporting unit.

Based on the results of our annual analysis of goodwill in 2013 and 2012, each reporting unit's fair value exceeded its carrying value, indicating that there was no goodwill impairment.

Estimates of fair value for all or our reporting units can be affected by a variety of external and internal factors. Potential events or circumstance that could reasonably be expected to negatively affect the key assumptions we used in estimating the fair value of our reporting units include adverse changes in our industry, increased competition, an inability to successfully introduce new products in the marketplace or to achieve internal forecasts, and a decline in our stock price. If the estimated fair value of our reporting units declines due to any of these factors, we may be required to record future goodwill impairment.

Income Taxes. In determining taxable income for financial statement reporting purposes, we must make certain estimates and judgments. These estimates and judgments are applied in the calculation of certain tax liabilities and in the determination of the recoverability of deferred tax assets, which arise from temporary differences between the recognition of assets and liabilities for tax and financial statement reporting purposes.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our charge to income tax expense, in the form of a valuation allowance, for the deferred tax assets that we estimate will not ultimately be recoverable. We consider past performance, future expected taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment of our uncertain tax positions by the Internal Revenue Service or other taxing authority. If our estimates of these taxes are greater or less than actual results, an additional tax benefit or charge will result. We recognize the interest and penalties related to unrecognized tax benefits as interest expense and income tax expense, respectively.

Results of Operations

Management, including the Chief Operating Decision Maker, who is our Chief Executive Officer, reviews and assesses our operating performance using segment net revenue and operating income (loss) before interest, other income (expense), net, and income taxes. These performance measures include the allocation of expenses to the operating segments based on management's judgment. In connection with our continued strategic transformation, effective July 1, 2014, we realigned our organizational structure. As a result of this organizational change, we have the following two reportable segments:

- the Computing and Graphics segment, which primarily includes desktop and notebook processors and chipsets, discrete GPUs and professional graphics; and
- the Enterprise, Embedded and Semi-Custom segment, which primarily includes server and embedded processors, dense servers, semi-custom SoC products, engineering services and royalties.

Effective October 8, 2014, Dr. Lisa T. Su became our Chief Executive Officer, succeeding Rory P. Read. This management change did not result in a change in our reportable segments or to the fact that the Chief Operating Decision Maker is our Chief Executive Officer.

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In addition to these reportable segments, we have an All Other category, which is not a reportable segment. This category primarily includes certain expenses and credits that are not allocated to any of the reportable segments because management does not consider these expenses and credits in evaluating the performance of the reportable segments. Also included in this category are amortization of acquired intangible assets, employee stock-based compensation expense, net restructuring and other special charges, workforce rebalancing severance charges, goodwill impairment charge, significant or unusual lower of cost or market inventory adjustments, loss on debt repurchases, a charge related to the limited waiver of exclusivity from GF and a net gain from licenses and settlement agreements regarding patent-related matters. We also reported the results of former businesses in the All Other category because the operating results were not material. In addition, during 2014, we reclassified $273 million of lower of cost or market inventory adjustment previously recorded in Computing and Graphics segment in 2012 to All Other category to conform with the current year's presentation.

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist you in understanding our financial statements, the changes in certain key items in those financial statements from year to year, the primary factors that resulted in those changes and how certain accounting principles, policies and estimates affect our financial statements.

We use a 52 or 53 week fiscal year ending on the last Saturday in December. The years ended December 27, 2014, December 28, 2013 and December 29, 2012 each included 52 weeks. References in this report to 2014, 2013 and 2012 refer to the fiscal year unless explicitly stated otherwise.

The following table provides a summary of net revenue and operating income (loss) by segment and income (loss) before income taxes for 2014, 2013 and 2012. The prior period results have been recast to reflect our new reportable segments.

	2014	2013	2012
		(In millions)	
Net revenue:			
Computing and Graphics	$3,132	$3,720	$ 4,724
Enterprise, Embedded and Semi-Custom	2,374	1,577	698
All Other	—	2	—
Total net revenue	$5,506	$5,299	$ 5,422
Operating income (loss):			
Computing and Graphics	$ (76)	$ (101)	$ 129
Enterprise, Embedded and Semi-Custom	399	295	18
All Other	(478)	(91)	(1,203)
Total operating income (loss)	$ (155)	$ 103	$(1,056)
Interest income	3	5	8
Interest expense	(177)	(177)	(175)
Other income (expense), net	(69)	(5)	6
Loss before income taxes	$ (398)	$ (74)	$(1,217)

Computing and Graphics

Computing and Graphics net revenue of $3.1 billion in 2014 decreased by 16% compared to $3.7 billion in 2013 as a result of a 27% decrease in unit shipments, partially offset by a 15% increase in average selling price. The decrease in unit shipments was primarily attributable to lower unit shipments of our microprocessor products for desktop and notebook PCs and chipsets due to challenging consumer PC market conditions and our chipsets being integrated into our APU products. The increase in average selling price was primarily attributable to an increase in average selling price of our microprocessor products due to improved product mix of our microprocessor products for desktop and notebook PCs.

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Computing and Graphics net revenue of $3.7 billion in 2013 decreased by 21% compared to $4.7 billion in 2012 as a result of a 23% decrease in unit shipments and a 2% increase in average selling price. The decrease in unit shipments was primarily attributable to lower unit shipments of our microprocessor products for desktop and notebook PCs, chipset products and GPU products. The increase in average selling price was primarily attributable to an increase in average selling price of our GPU products, partially offset by a decrease in average selling price of our microprocessor products for desktop and notebook PCs and chipset products. Unit shipments and average selling price for microprocessor products for desktop and notebook PCs and chipset products decreased primarily due to challenging market conditions and the increasing popularity of tablets as a consumer device of choice, which resulted in decreased demand for our products.

Computing and Graphics operating loss was $76 million in 2014 compared to an operating loss of $101 million in 2013. The improvement in operating results was primarily due to a $323 million decrease in cost of sales, a $201 million decrease in research and development expenses and a $89 million decrease in marketing, general and administrative expenses, partially offset by the decrease in net revenue referenced above. Cost of sales decreased primarily due to lower unit shipments in 2014 compared to 2013. Operating loss in 2014 included a $19 million benefit from technology licensing revenue. In addition, operating loss in 2013 included a $57 million benefit from sales of inventory that had been previously reserved in the third quarter of 2012, as compared to a similar $8 million benefit in 2014. Research and development expenses and marketing, general and administrative expenses decreased for the reasons set forth under “Expenses,” below.

Computing and Graphics operating loss was $101 million in 2013 compared to an operating income of $129 million in 2012. The decline in operating results was primarily due to the decrease in net revenue referenced above, partially offset by a $582 million decrease in cost of sales, a $154 million decrease in marketing, general and administrative expenses and a $37 million decrease in research and development expenses. Cost of sales decreased primarily due to lower unit shipments in 2013 compared to 2012 as well as the absence of the inventory write-down of approximately $100 million during the third quarter of 2012 as a result of lower than anticipated future demand for certain products, mainly first generation A-Series APU products, codenamed “Llano”. In addition, operating loss for 2013 included a $57 million benefit from sales of inventory that had been previously reserved in the third quarter of 2012. Marketing, general and administrative expenses and research and development expenses decreased for the reasons set forth under “Expenses,” below.

Enterprise, Embedded and Semi-Custom

Enterprise, Embedded and Semi-Custom net revenue of $2.4 billion in 2014 increased by 51% compared to net revenue of $1.6 billion in 2013. The increase was primarily due to an increase in net revenue received in connection with higher unit shipments of our semi-custom SoC products, which we began shipping in the second quarter of 2013.

Enterprise, Embedded and Semi-Custom net revenue of $1.6 billion in 2013 increased by 126% compared to net revenue of $0.7 billion in 2012. The increase was primarily due to net revenue received in connection with sales of our semi-custom SoC products, which we began shipping in the second quarter of 2013, partially offset by a decrease in net revenue from server products. Net revenue from sales of server products decreased in 2013 compared to 2012 due to lower unit shipments, as well as lower average selling price due to challenging market conditions, which adversely impacted demand.

Enterprise, Embedded and Semi-Custom operating income was $399 million in 2014 compared to $295 million in 2013. The improvement in operating results was primarily due to the increase in net revenue referenced above, partially offset by a $614 million increase in cost of sales, a $64 million increase in research and development expenses and a $15 million increase in marketing, general and administrative expenses. The increase in cost of sales was primarily due to an increase in unit shipments of our semi-custom SoC products in 2014 compared to 2013. In addition, operating income in 2014 included an $8 million benefit from technology license revenue. Research and development expenses and marketing, general and administrative expenses increased for the reasons set forth under “Expenses” below.

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Enterprise, Embedded and Semi-Custom operating income was $295 million in 2013 compared to $18 million in 2012. The improvement in operating results was primarily due to the increase in net revenue referenced above, partially offset by a $702 million increase in cost of sales and a $12 million increase in marketing, general and administrative expenses, partially offset by a $112 million decrease in research and development expenses. The increase in cost of sales was primarily due to the commencement of unit shipments of our semi-custom SoC products in the second quarter of 2013. Marketing, general and administrative expenses increased and research and development expenses decreased for the reasons set forth under "Expenses" below.

All Other

All Other revenue pertains to results from former businesses, which were immaterial in 2014, 2013 and 2012.

All Other operating loss of $478 million in 2014 included a goodwill impairment charge of $233 million, stock-based compensation expense of $81 million, net restructuring and other special charges of $71 million, lower of cost or market inventory adjustment of $58 million, $14 million related to workforce rebalancing severance charges, $14 million related to amortization of acquired intangible assets and $7 million related to other expenses.

All Other operating loss of $91 million in 2013 included stock-based compensation expense of $91 million, net restructuring and other special charges of $30 million and $18 million related to amortization of acquired intangible assets. During the fourth quarter of 2013, we entered into licenses and settlements regarding patent-related matters, for which we received in aggregate $48 million in net cash, which we recorded as an offset to operating expenses.

All Other operating loss of $1.2 billion in 2012 included a $703 million charge related to the limited waiver of exclusivity from GF, lower of cost or market inventory adjustment of $273 million related to the fee for GF's waiver of a portion of our obligations, $100 million of net restructuring charges, stock-based compensation expense of $97 million, $14 million related to amortization of acquired intangible assets and $6 million related to our acquisition of SeaMicro, Inc. (SeaMicro) in 2012.

Comparison of Gross Margin, Expenses, Interest Income, Interest Expense, Other Income (Expense), Net and Income Taxes

The following is a summary of certain consolidated statement of operations data for 2014, 2013 and 2012.

	2014	2013	2012
	(In millions, except for percentages)		
Cost of sales	$ 3,667	$ 3,321	$ 4,187
Gross margin	1,839	1,978	1,235
Gross margin percentage	33%	37%	23%
Research and development	1,072	1,201	1,354
Marketing, general and administrative	604	674	823
Amortization of acquired intangible assets	14	18	14
Restructuring and other special charges, net	71	30	100
Goodwill impairment charge	233	—	—
Legal settlements, net	—	(48)	—
Interest income	3	5	8
Interest expense	(177)	(177)	(175)
Other income (expense), net	(69)	(5)	6
Provision (benefit) for income taxes	$ 5	$ 9	$ (34)

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Gross Margin

Gross margin as a percentage of net revenue was 33% in 2014 compared to 37% in 2013. Gross margin in 2014 included a $58 million lower of cost or market inventory adjustment, which accounted for one gross margin percentage point, and a $27 million benefit from technology licensing revenue, which accounted for less than one gross margin percentage point. Gross margin in 2013 included a $57 million benefit from sales of inventory that was previously reserved in the third quarter of 2012, which accounted for one gross margin percentage point as compared to $8 million in 2014 which had a less than one percentage point impact. Gross margin in 2014 was adversely impacted by lower average gross margins in our Enterprise, Embedded and Semi-Custom segment driven by increased sales of lower margin semi-custom SoC products.

Gross margin as a percentage of net revenue was 37% in 2013 compared to 23% in 2012. Gross margin in 2012 included a $703 million charge related to the limited waiver of exclusivity from GF, a lower of cost or market charge of $273 million and a $5 million charge recorded to cost of sales related to a legal settlement. Absent the effect of these charges, which we believe are not indicative of our ongoing operating performance, our gross margin would have been 41% in 2012 compared to 37% in 2013. Gross margin in 2013 was adversely impacted by the lower average gross margins in our Enterprise, Embedded and Semi-Custom segment primarily driven by lower margin semi-custom SoC products, which we began shipping in the second quarter of 2013. Gross margin in 2012 was adversely impacted by an inventory write-down of $100 million during the third quarter of 2012 as a result of lower than anticipated future demand for certain products, mainly first generation A-Series APU products, codenamed "Llano," which accounted for two gross margin percentage points. Gross margin in 2013 included a $57 million benefit from sales of this previously reserved inventory, which accounted for one gross margin percentage point.

Expenses

Research and Development Expenses

Research and development expenses of $1.1 billion in 2014 decreased by $129 million, or 11%, compared to $1.2 billion in 2013. The decrease was primarily due to a $201 million decrease in research and development expenses attributable to our Computing and Graphics segment, partially offset by a $64 million increase in research and development expenses attributable to our Enterprise, Embedded and Semi-Custom segment and a $9 million increase in the All Other category related to a workforce rebalancing severance charge recorded in the first quarter of 2014. Research and development expenses attributable to our Computing and Graphics segment decreased primarily due to a $171 million decrease in product engineering and design costs, a $22 million decrease in other employee compensation and benefit expenses and a $10 million decrease in manufacturing process technology expenses. Research and development expenses attributable to our Enterprise, Embedded and Semi-Custom segment, where we expect to continue to increase our investment, increased primarily due to a $59 million increase in product engineering and design costs and a $3 million increase in other employee compensation and benefit expenses.

Research and development expenses of $1.2 billion in 2013 decreased by $153 million, or 11%, compared to $1.4 billion in 2012. The decrease was primarily due to a $112 million decrease in research and development expense attributable to our Enterprise, Embedded and Semi-Custom segment, a $37 million decrease in research and development expenses attributable to our Computing and Graphics segment and a $4 million decrease in stock-based compensation expense recorded in the All Other category. Research and development expenses attributable to our Enterprise, Embedded and Semi-Custom segment decreased as a result of a $103 million decrease in product engineering costs and a $9 million decrease in manufacturing process technology expenses. The decrease in research and development expenses attributable to our Computing and Graphics segment was primarily due to a $38 million decrease in product engineering costs and a $35 million decrease in manufacturing process technology expenses, partially offset by a $34 million increase in other employee compensation and benefit expenses.

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Marketing, General and Administrative Expenses

Marketing, general and administrative expenses of $604 million in 2014 decreased by $70 million, or 10%, compared to $674 million in 2013. The decrease was primarily due to an $89 million decrease in marketing, general and administrative expenses attributable to our Computing and Graphics segment, partially offset by a $15 million increase in marketing, general and administrative expenses attributable to our Enterprise, Embedded and Semi-Custom segment and a $5 million increase in the All Other category related to a workforce rebalancing severance charge recorded in the first quarter of 2014. Marketing, general and administrative expenses attributable to our Computing and Graphics segment decreased primarily due to a $61 million decrease in sales and marketing activities and a $25 million decrease in other general and administrative expenses. Marketing, general and administrative expenses attributable to our Enterprise, Embedded and Semi-Custom segment increased primarily due to an $8 million increase in sales and marketing activities and a $5 million increase in other general and administrative expenses.

Marketing, general and administrative expenses of $674 million in 2013 decreased by $149 million, or 18%, compared to $823 million in 2012. The decrease was primarily due to a $154 million decrease in marketing, general and administrative expenses attributable to our Computing and Graphics segment and a $6 million decrease in the All Other category due to the absence of SeaMicro acquisition-related costs recorded in 2012, partially offset by a $12 million increase in marketing, general and administrative expenses attributable to our Enterprise, Embedded and Semi-Custom segment. Marketing, general and administrative expenses attributable to our Computing and Graphics segment decreased primarily due to a $93 million decrease in sales and marketing activities and a $72 million decrease in other general and administrative expenses, partially offset by a $10 million increase in other employee compensation and benefit expense. Marketing, general and administrative expenses attributable to our Enterprise, Embedded and Semi-Custom Solutions segment increased primarily due to a $33 million increase in other general and administrative expenses, partially offset by a $20 million decrease in sales and marketing activities.

Legal Settlements

During the fourth quarter of 2013, we entered into licenses and settlement agreements regarding patent-related matters for which we received in aggregate $48 million in net cash, which we recorded as an offset to operating expenses. At the time we entered into the agreements, we did not have any future obligations that we were required to perform in order to earn the settlement payments. Accordingly, we recognized the entire settlement amount in our operating results for the fourth quarter of 2013.

Amortization of Acquired Intangible Assets

Amortization of acquired intangible assets was $14 million in 2014, $18 million in 2013 and $14 million in 2012. The decrease from 2013 to 2014 was due to the reduced amortization base amount of acquired intangible assets of ATI. The increase from 2012 to 2013 was due to amortization of the intangible assets of SeaMicro, which we acquired in 2012.

Restructuring and Other Special Charges, Net

Effects of Restructuring Plans

2014 Restructuring Plan

In October 2014, we implemented a restructuring plan designed to improve operating efficiencies. The plan involved a reduction of global headcount by approximately 6%, largely completed by the end of 2014, and an alignment of our real estate footprint with the reduced headcount, largely expected to be completed by the end of first half of 2015. We recorded a $57 million restructuring charge in the fourth quarter of 2014, which consisted of $44 million for severance and costs related to the continuation of certain employee benefits, $6 million for contract or program termination costs, $1 million for facilities related costs and $6 million for asset impairments,

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a non-cash charge. In accordance with the restructuring plan, we expect to record a restructuring charge of approximately $13 million in 2015, primarily related to real estate actions. We made cash payments of $19 million in the fourth quarter of 2014 and expect to make cash payments of $34 million and $8 million in 2015 and 2016, respectively.

2012 Restructuring Plan

In the fourth quarter of 2012, we implemented a restructuring plan designed to improve our cost structure and to strengthen our competitiveness in core growth areas. The plan primarily involved a workforce reduction of approximately 14% as well as asset impairments and facility consolidations. We recorded restructuring expense in the fourth quarter of 2012 of approximately $90 million, which was primarily comprised of employee severance. The non-cash portion of the restructuring expense included approximately $4 million of asset impairments. In 2014 and 2013, we incurred costs of $3 million and $11 million, respectively, related to facility consolidation and site closures, which were partially offset by the release of estimated employee-related severance costs of $5 million and $2 million, respectively. The 2012 restructuring plan was largely completed as of the end of the third quarter of 2013.

2011 Restructuring Plan

In 2012, we recorded an approximately $8 million for severance and costs related to certain employee benefits. The 2011 restructuring plan was completed as of the end of the first quarter of 2012.

The following table provides a summary of the restructuring activities during 2014 and 2013 and the remaining related liabilities recorded in “Accrued and other current liabilities” and “Other long-term liabilities” on our consolidated balance sheet as of December 27, 2014:

	Severance and related benefits	Other exit Related Costs	Total
		(In millions)	
Balance at December 29, 2012	$ 41	$ 17	$ 58
Charges (reversals), net	(5)	11	6
Cash payments	(33)	(21)	(54)
Balance at December 28, 2013	3	7	10
Charges (reversals), net	42	16	58
Cash payments	(19)	(4)	(23)
Non-cash charges	—	(6)	(6)
Balance at December 27, 2014	$ 26	$ 13	$ 39

The following table provides a summary of each major type of cost associated with the 2014, 2012 and 2011 restructuring plans for the periods presented:

	2014	2013	2012
		(In millions)	
Severance and benefits charges (reversals), net	$42	$ (5)	$ 95
Contract or program termination charges	6	—	—
Asset impairments	6	—	4
Facility consolidation and closure charges	4	11	1
Total	$58	$ 6	$100

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Sale and Leaseback Transactions

In September 2013, we sold a light industrial building in Singapore and leased back a portion of the original space. We received net cash proceeds of $46 million in connection with the sale, which resulted in a $17 million gain that we recorded in the third quarter of 2013 and a deferred gain of $14 million (as of September 28, 2013) that is being amortized over the initial operating lease term. The initial operating lease term expires in September 2023 and provides for options to extend the operating lease for 4 years at the end of the initial lease term and for an additional 3.5 years thereafter.

In September 2013, we also sold an office building in Austin, Texas. We received net cash proceeds of $10 million in connection with the sale and recorded a $5 million gain in the third quarter of 2013.

In March 2013, we sold and leased back certain land and office buildings in Austin, Texas. We received net cash proceeds of $164 million in connection with the sale and recorded a $52 million charge in the first quarter of 2013. The operating lease expires in March 2025 and provides for one 10-year optional renewal.

In March 2013, we also sold an office building in Markham, Ontario, Canada and leased back a portion of the original space through June 2013. We received net cash proceeds of $13 million in connection with the sale and recorded a $6 million gain in the first quarter of 2013.

The net charge of $24 million recognized in 2013 related to the real estate transactions described above is recorded in the “Restructuring and other special charges, net” line item on the consolidated statements of operations.

Executive Officer Separation

In the fourth quarter of 2014, we recorded other special charges of $13 million. The amount primarily included $10 million due to the departure of our former CEO, of which $5 million was related to cash and $5 million was related to stock-based compensation expenses. The amount is recorded as “Restructuring and other special charges, net” on the consolidated statements of operations.

Interest Income

Interest income was $3 million in 2014 compared to $5 million in 2013. The decrease was primarily due to a decrease in average investments in marketable securities and a decrease in the weighted-average interest rate during 2014.

Interest income was $5 million in 2013 compared to $8 million in 2012. The decrease was primarily due to a decrease in average investments in marketable securities during 2013.

Interest Expense

Interest expense of $177 million in 2014 was relatively flat as compared to $177 million in 2013 and $175 million in 2012.

Other Income (Expense), Net

Other expense, net, in 2014 was $69 million compared to $5 million of other expense, net, in 2013 and $6 million of other income, net, in 2012.

In 2014, we recognized $69 million of other expense, net, primarily due to a $61 million loss from debt repurchases and a $7 million loss from foreign currency exchange rate fluctuations.

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In 2013, we recognized $5 million of other expense, net, primarily due to a $2 million loss from foreign currency exchange rate fluctuations and a $2 million realized loss on sale of our auction rate securities (ARS) investments.

In 2012, we recognized $6 million of other income, net, primarily due to other income recorded in the third quarter of 2012, partially offset by a $5 million loss from foreign currency exchange rate fluctuations and a $4 million other-than-temporary impairment charge related to one of our ARS investments.

Income Taxes

We recorded an income tax provision of $5 million and $9 million in 2014 and 2013, respectively, and an income tax benefit of $34 million in 2012.

The income tax provision in 2014 was primarily due to $7 million of foreign taxes in profitable locations, offset by $2 million of tax benefits for Canadian tax credits and the monetization of certain US tax credits.

The income tax provision in 2013 was primarily due to $9 million of foreign taxes in profitable locations and $3 million related to the reversal of previously recognized tax benefits associated with other comprehensive income, offset by $3 million of tax benefits for Canadian tax credits and the monetization of certain U.S. tax credits.

The income tax benefit in 2012 was primarily due to a tax benefit of $36 million relating to our SeaMicro acquisition, a $1 million tax benefit for the tax effects of items credited directly to other comprehensive income, a $2 million tax benefit for Canadian tax credits and a $9 million tax benefit associated with the successful negotiation of a tax holiday in a foreign jurisdiction net of $14 million of foreign taxes in profitable locations.

As of December 27, 2014, substantially all of our U.S. and foreign deferred tax assets, net of deferred tax liabilities, continued to be subject to a valuation allowance. The realization of these assets is dependent on substantial future taxable income which, at December 27, 2014, in management’s estimate, is not more likely than not to be achieved.

Stock-Based Compensation Expense

Stock-based compensation expense related to employee stock options, restricted stock and restricted stock units for the years ended December 27, 2014, December 28, 2013 and December 29, 2012 was allocated in our consolidated statements of operations as follows:

	2014	2013	2012
		(In millions)	
Cost of sales	$ 3	$ 5	$ 8
Research and development	44	48	52
Marketing, general and administrative	34	38	37
Total stock-based compensation expense, net of tax of $0	$81	$91	$97

During 2014, 2013 and 2012, we did not realize any excess tax benefits related to stock-based compensation and therefore we did not record any effects relating to financing cash flows.

Stock-based compensation expense of $81 million in 2014 decreased by $10 million as compared to $91 million in 2013. The decrease was primarily due to lower expense related to stock options and restricted stock granted in connection with our SeaMicro acquisition as most were becoming fully vested during 2014 and lower stock compensation expense as a result of our 2014 restructuring plan.

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Stock-based compensation expenses of $91 million in 2013 decreased $6 million compared to $97 million in 2012. The decrease was primarily due to a lower weighted average grant date fair value and lower stock compensation expense as a result of our 2012 restructuring plan, partially offset by the additional expense related to stock options and restricted stock granted in connection with our SeaMicro acquisition.

As of December 27, 2014, we had $16 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock options that will be recognized over a weighted-average period of 2.08 years. Also, as of December 27, 2014, we had $98 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock and restricted stock units including performance-based restricted stock units that will be recognized over a weighted-average period of 1.75 years.

International Sales

International sales as a percentage of net revenue were 81% in 2014, 85% in 2013 and 92% in 2012. The decrease in international sales as a percentage of net revenue in 2014 compared 2013 and 2012 was primarily driven by an increase in net revenue from domestic sales of our semi-custom SoC products. We expect that international sales will continue to be a significant portion of total sales in the foreseeable future. Substantially all of our sales transactions were denominated in U.S. dollars.

FINANCIAL CONDITION

Liquidity

As of December 27, 2014, our cash, cash equivalents and marketable securities of $1.0 billion were lower compared to $1.2 billion as of December 28, 2013. The decrease was primarily due to the final $200 million cash payment made in the first quarter of 2014 related to GF's waiver of a portion of our obligations for wafer purchase commitments for the fourth quarter of 2012 and the timing of sales and related collections. During 2014, we also used $95 million for purchases of property, plant and equipment. Also, during 2014, we reclassified $45 million of our marketable securities that were previously classified as long-term to short-term as those were intended to be used for operations in the next twelve months. The percentage of cash, cash equivalents and marketable securities held domestically was 89% as of December 27, 2014.

Our debt and capital lease obligations as of December 27, 2014 were $2.2 billion as compared to $2.1 billion as of December 28, 2013. During 2014, we issued $600 million of 6.75% Notes, $500 million of 7.00% Notes, and received $75 million net proceeds from our Secured Revolving Line of Credit borrowings.

During 2014, we repurchased and redeemed $500 million in aggregate principal amount of our 8.125% Notes for $531 million in cash. As of the end of December 27, 2014, we did not have any 8.125% Notes outstanding. Also in 2014, we repurchased $487 million in aggregate principal amount of our 6.00% Notes for $529 million in cash, $50 million in aggregate principal amount of our 7.75% Notes for $48 million in cash, and $25 million in aggregate principal amount of our 7.50% Notes for $24 million in cash. The repurchases of the 7.75% Notes and 7.50% Notes were funded with our Secured Revolving Line of Credit.

In the fourth quarter of 2014, we announced a restructuring plan to implement operating efficiencies. We believe our cash, cash equivalents and marketable securities balance along with the savings from our restructuring plan and our Secured Revolving Line of Credit will be sufficient to fund operations, including capital expenditures, over the next twelve months. We believe that in the event we decide to obtain external funding, we may be able to access the capital markets on terms and in amounts adequate to meet our objectives.

Over the longer term, should additional funding be required, such as to meet payment obligations of our long-term debt when due, we may need to raise the required funds through borrowings or public or private sales of debt or equity securities, which may be issued from time to time under an effective registration statement,

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through the issuance of securities in a transaction exempt from registration under the Securities Act of 1933, as amended, or a combination of one or more of the foregoing. Uncertain global economic conditions have in the past and may in the future adversely impact our business. If market conditions deteriorate, we may be limited in our ability to access the capital markets to meet liquidity needs on favorable terms or at all, which could adversely affect our liquidity and financial condition, including our ability to refinance maturing liabilities.

Operating Activities

Net cash used in operating activities was $98 million in 2014. A net loss of $403 million in 2014 was primarily adjusted for $233 million of goodwill impairment charge, $203 million of depreciation and amortization expenses, $81 million of stock-based compensation expenses, $61 million net loss on debt redemptions, $17 million of non-cash interest expenses primarily related to amortization of debt discounts on our 6.00% Notes and 8.125% Notes, amortization of debt issuance costs and a software and technology license and $14 million non-cash net restructuring and other special charges. The net changes in operating assets as of December 27, 2014 compared to December 28, 2013 included a decrease in inventories of $199 million, largely driven by the lower of cost or market inventory adjustment and lower levels of inventory for our Computing and Graphics and semi-custom SoC products, a decrease in accounts receivable of $7 million, which was primarily due to timing of sales and collections, an increase in prepayments to GF of $113 million and an increase in prepaid expenses and other assets of $7 million. Accounts payable, accrued liabilities and other decreased by $231 million in 2014 as compared to 2013, primarily due to a $104 million decrease in accounts payable driven by timing of purchases and payments, a $73 million decrease in deferred income on shipments to our distributor customers and a $47 million decrease in accrued compensation and benefits. During 2014, our payables to GF, which included all amounts we owe to GF, decreased by $146 million as compared to 2013. The decrease was primarily due to the final $200 million payment to GF made in the first quarter of 2014 related to GF's waiver of a portion of our obligations for wafer purchase commitments for the fourth quarter of 2012, partially offset by an increase in accounts payable to GF due to timing of payments.

Net cash used in operating activities was $148 million in 2013. A net loss of $83 million in 2013 was primarily adjusted for $236 million of depreciation and amortization expenses, $91 million of stock-based compensation expenses, $31 million net loss on disposal of property, plant and equipment and $25 million of non-cash interest expenses primarily related to amortization of debt discounts on our 6.00% Notes and 8.125% Notes and amortization of debt issuance costs. The net changes in operating assets as of December 28, 2013 compared to December 29, 2012 included an increase in inventories of $322 million, largely driven by an increase in Computing and Graphics inventory as well as semi-custom SoC products due to our customers' next generation game console ramps, an increase in accounts receivable of $200 million, which was primarily due to higher sales during the fourth quarter of 2013 compared to the fourth quarter of 2012, an increase in other assets of $92 million, primarily due to new software licenses and an increase in prepaid expenses and other current assets of $11 million. Accounts payable, accrued and other liabilities increased by $266 million in 2013 as compared to 2012, primarily due to a $241 million increase in accounts payable driven by larger purchases of inventory to support higher sales during the fourth quarter of 2013 compared to the fourth quarter of 2012, a $36 million increase in deferred income on shipments to our distributor customers, and a $28 million increase in accrued compensation and benefits, partially offset by a $39 million decrease in other liabilities, primarily due to a decrease in restructuring accruals and payments for technology licenses. During 2013, our payables to GF, which included all amounts we owe to GF, decreased by $89 million as compared to 2012. The decrease was primarily due to payments of $175 million related to GF's limited waiver of exclusivity and $40 million related to GF's waiver of a portion of our obligations for wafer purchase commitments for the fourth quarter of 2012, partially offset by an increase of $126 million of payables related to wafer purchases.

Net cash used in operating activities was $338 million in 2012. A net loss of $1.2 billion in 2012 was adjusted for non-cash charges consisting primarily of a $278 million charge related to the limited waiver of exclusivity from GF, $260 million of depreciation and amortization expense, $97 million of stock-based compensation expense and $23 million of non-cash interest expense related to our 6.00% Notes and 8.125% Notes. These charges were partially offset by a benefit of $40 million for deferred income taxes. The net changes

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in operating assets as of December 29, 2012 compared to December 31, 2011 included a decrease in accounts receivable of $290 million and an increase in inventories of $83 million, which were primarily due to lower sales during 2012. During 2012, our payable to GF, which included all amounts that we owe to GF, increased by $277 million as compared to 2011. The increase was due to cash obligations of $240 million related to the third amendment to the WSA and $175 million related to the limited waiver of exclusivity, partially offset by a decrease of $138 million in the amount of billings related to wafer purchases. Accounts payable, accrued liabilities and other decreased by $232 million in 2012 as compared to 2011, primarily due to a $94 million decrease in accrued liabilities, a $92 million decrease in accounts payable and other current liabilities, a $23 million decrease in other liabilities, a $15 million decrease in deferred income on shipments to distributors and a $6 million decrease in accrued compensation and benefits.

Investing Activities

Net cash used in investing activities was $12 million in 2014, which consisted of a cash outflow of $95 million for purchases of property, plant and equipment, offset by a net cash inflow of $83 million from purchases, sales and maturities of available for sale securities.

Net cash provided by investing activities was $455 million in 2013 and primarily consisted of net proceeds of $301 million from the purchase, sales and maturities of available-for-sale securities and net proceeds of $154 million from sales and purchases of property, plant and equipment.

Net cash used in investing activities was $19 million in 2012. We had a net cash inflow of $404 million in 2012 from purchases, sales and maturities of available-for-sale securities, partially offset by a net cash outflow of $281 million related to our SeaMicro acquisition, a cash outflow of $133 million for purchases of property, plant and equipment and a cash outflow of $9 million related to other investing activities.

Financing Activities

Net cash provided by financing activities was $46 million in 2014, primarily due to net proceeds from borrowings pursuant to our 6.75% Notes of $589 million, our 7.00% Notes of $491 million and our Secured Revolving Line of Credit of $75 million, partially offset by $518 million in payments to repurchase a portion of our 6.00% Notes, $522 million in payments to repurchase our 8.125% Notes, $48 million in payments to repurchase a portion of our 7.75% Notes, $24 million in payments to repurchase a portion of our 7.50% Notes and $3 million in payments for capital lease obligations. During 2014, we also received $8 million in net proceeds, primarily from U.S. government grants for research and development activities and $4 million from the exercise of employee stock options.

Net cash provided by financing activities was $13 million in 2013, primarily due to net proceeds from borrowings pursuant to our Secured Revolving Line of Credit of $55 million, net proceeds from U.S. government grants for research and development activities and foreign grants from the Canadian government for research and development activities related to our AMD APU products of $11 million and $3 million from the issuance of common stock under our stock-based compensation plan, partially offset by the repurchase of $50 million in principal amount of our 6.00% Notes (which is a portion of our outstanding 6.00% Notes) in open market transactions and $5 million in payments for capital lease obligations.

Net cash provided by financing activities was $37 million in 2012, primarily due to net proceeds from the issuance of our 7.50% Notes of $491 million, $23 million from foreign grants from the Canadian government for research and development activities related to our AMD APU products and from the Malaysian and Chinese governments for our local microprocessor assembly, test and packaging facilities and $14 million from the issuance of common stock under our stock-based compensation plan, partially offset by our repayment of outstanding principal and accrued interest on our 5.75% Convertible Senior Notes due 2012 and repayment of capital lease obligations of $489 million.

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During 2014, 2013 and 2012, we did not realize any excess tax benefit related to stock-based compensation. Therefore, we did not record any effects relating to financing cash flows for these periods.

Contractual Obligations

The following table summarizes our consolidated principal contractual cash obligations, as of December 27, 2014, and is supplemented by the discussion following the table:

		Payment due by period					
(In millions)	Total	2015	2016	2017	2018	2019	2020 and thereafter
6.00% Notes	$ 42	$ 42	$—	$—	$—	$—	$ —
6.75% Notes	600	—	—	—	—	600	—
7.75% Notes	450	—	—	—	—	—	450
7.50% Notes	475	—	—	—	—	—	475
7.00% Notes	500	—	—	—	—	—	500
Secured Revolving Line of Credit	130	130	—	—	—	—	—
Other long-term liabilities	68	—	35	31	1	—	1
Aggregate interest obligation[1]	1,037	150	148	148	148	126	317
Capital lease obligations[2]	12	5	6	1	—	—	—
Operating leases	340	50	46	43	41	27	133
Purchase obligations[3]	688	542	50	71	25	—	—
Obligations to GF[4]	80	80	—	—	—	—	—
Total contractual obligations	$4,422	$999	$285	$294	$215	$753	$ 1,876

(1) Represents estimated aggregate interest obligations for our outstanding debt obligations that are payable in cash, excluding capital lease obligations. Also excludes non-cash amortization of debt discounts on our 6.00% Notes and amortization of debt issuance costs.

(2) Includes principal and imputed interest.

(3) We have purchase obligations for goods and services where payments are based, in part, on the volume or type of services we acquire. In those cases, we only included the minimum volume of purchase obligations in the table above. Purchase orders for goods and services that are cancelable upon notice and without significant penalties are not included in the amounts above. In addition we have obligations for software technology and licenses where payments are fixed and non-cancelable which are also included in the table above.

(4) Represents our payment obligations to GF as of the end of our fiscal year for wafer receipts and research and development activities. We negotiate our purchase commitments with GF on an annual basis and as such we cannot meaningfully quantify or estimate our future payment obligations to GF. We are currently in the process of negotiating a fifth amendment to the WSA, and we expect that our future purchases from GF will continue to be material.

6.00% Convertible Senior Notes due 2015

On April 27, 2007, we issued $2.2 billion aggregate principal amount of our 6.00% Notes. Our 6.00% Notes are our general unsecured senior obligations. Interest is payable on May 1 and November 1 of each year beginning November 1, 2007 until the maturity date of May 1, 2015. The terms of our 6.00% Notes are governed by an indenture dated April 27, 2007, by and between us and Wells Fargo Bank, N.A., as trustee.

During the first quarter of 2014, we repurchased $64 million in aggregate principal amount of our 6.00% Notes in open market transactions for $69 million, which included payment of accrued and unpaid interest of $1 million. Also, during 2014, we repurchased a portion of our 6.00% Notes through a partial tender offer. We repurchased $423 million aggregate principal amount of our 6.00% Notes for $460 million in cash, which included payment of accrued and unpaid interest of $10 million. We incurred a total loss of $10 million in connection with the foregoing repurchases of our 6.00% Notes.

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In 2013, we repurchased $50 million in aggregate principal amount of our 6.00% Notes in open market transactions for $53 million. As of December 27, 2014, the outstanding aggregate principal amount and remaining carrying value of our 6.00% Notes were $42 million. The remaining $42 million of aggregate principal amount of 6.00% Notes has been reclassified as short-term debt on the consolidated balance sheet as of December 27, 2014 due May 2015.

See Note 10 of "Notes to Consolidated Financial Statements" below, for additional information regarding our 6.00% Notes.

8.125% Senior Notes Due 2017

On November 30, 2009, we issued $500 million of our 8.125% Notes at a discount of 10.204%.

During 2014, we repurchased and redeemed the entire $500 million in aggregate principal amount of our 8.125% Notes for $531 million, which included payment of accrued and unpaid interest of $8 million. We incurred a total loss of $54 million in connection with the foregoing repurchase and redemption of the 8.125% Notes. As of December 27, 2014, we did not have any 8.125% Notes outstanding.

See Note 10 of "Notes to Consolidated Financial Statements" below, for additional information regarding our 8.125% Notes.

6.75% Senior Notes Due 2019

On February 26, 2014, we issued $600 million of our 6.75% Notes. Our 6.75% Notes are our general unsecured senior obligations. Interest is payable on March 1 and September 1 of each year beginning September 1, 2014 until the maturity date of March 1, 2019. Our 6.75% Notes are governed by the terms of an indenture (the 6.75% Indenture) dated February 26, 2014 between us and Wells Fargo Bank, National Association, as trustee.

At any time before March 1, 2019, we may redeem some or all of our 6.75% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a "make whole" premium (as set forth in the 6.75% Indenture).

As of December 27, 2014, the outstanding aggregate principal amount of our 6.75% Notes was $600 million, and we reported $600 million of the 6.75% Notes on our consolidated balance sheets.

See Note 10 of "Notes to Consolidated Financial Statements" below, for additional information regarding our 6.75% Notes.

7.75% Senior Notes Due 2020

On August 4, 2010, we issued $500 million of our 7.75% Notes. Our 7.75% Notes are our general unsecured senior obligations. Interest is payable on February 1 and August 1 of each year beginning February 1, 2011 until the maturity date of August 1, 2020. Our 7.75% Notes are governed by the terms of an indenture dated August 4, 2010 between us and Wells Fargo Bank, N.A., as trustee.

Starting August 1, 2015, we may redeem our 7.75% Notes for cash at the following specified prices plus accrued and unpaid interest:

Period	Price as Percentage of Principal Amount
Beginning on August 1, 2015 through July 31, 2016	103.875%
Beginning on August 1, 2016 through July 31, 2017	102.583%
Beginning on August 1, 2017 through July 31, 2018	101.292%
On August 1, 2018 and thereafter	100.000%

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As of December 27, 2014, the outstanding aggregate principal amount of our 7.75% Notes was $450 million.

See Note 10 of “Notes to Consolidated Financial Statements” below, for additional information regarding our 7.75% Notes.

7.50% Senior Notes Due 2022

On August 15, 2012, we issued $500 million of our 7.50% Notes. Our 7.50% Notes are our general unsecured senior obligations. Interest is payable on February 15 and August 15 of each year beginning February 15, 2013 until the maturity date of August 15, 2022. The 7.50% Notes are governed by the terms of an indenture dated August 15, 2012 between us and Wells Fargo Bank, N.A., as trustee.

At any time (which may be more than once) before August 15, 2015, we may redeem up to 35% of the aggregate principal amount of our 7.50% Notes within 90 days of the closing of an equity offering with the net proceeds thereof at a redemption price equal to 107.5% of the principal amount thereof, together with accrued and unpaid interest to but excluding the date of redemption. At any time before August 15, 2022, we may redeem some or all of our 7.50% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a “make whole” premium (as set forth in the 7.50% Indenture).

As of December 27, 2014, the outstanding aggregate principal amount of our 7.50% Notes was $475 million.

See Note 10 of “Notes to Consolidated Financial Statements” below, for additional information regarding our 7.50% Notes.

7.00% Senior Notes Due 2024

On June 16, 2014, we issued $500 million of 7.00% Notes. The 7.00% Notes are our general unsecured senior obligations. Interest is payable on January 1 and July 1 of each year beginning January 1, 2015 until the maturity date of July 1, 2024. The 7.00% Notes are governed by the terms of an indenture (the 7.00% Indenture) dated June 16, 2014 between us and Wells Fargo Bank, National Association, as trustee.

At any time before July 1, 2017, we may redeem up to 35% of the aggregate principal amount of the 7.00% Notes within 90 days of the closing of an equity offering with the net proceeds thereof at a redemption price equal to 107.000% of the principal amount thereof, together with accrued and unpaid interest to but excluding the date of redemption. Prior to July 1, 2019, we may redeem some or all of the 7.00% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a “make whole” premium (as set forth in the 7.00% Indenture).

Starting July 1, 2019, we may redeem our 7.00% Notes for cash at the following specified prices plus accrued and unpaid interest:

Period	**Price as Percentage of Principal Amount**
Beginning on July 1, 2019 through June 30, 2020	103.500%
Beginning on July 1, 2020 through June 30, 2021	102.333%
Beginning on July 1, 2021 through June 30, 2022	101.167%
On July 1, 2022 and thereafter	100.000%

As of December 27, 2014, the outstanding aggregate principal amount of our 7.00% Notes was $500 million.

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See Note 10 of “Notes to Consolidated Financial Statements” below, for additional information regarding our 7.00% Notes.

Potential Repurchase of Outstanding Notes

We may elect to purchase or otherwise retire our 6.00% Notes, 6.75% Notes, 7.75% Notes, 7.50% Notes and 7.00% Notes with cash, stock or other assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries, or by tender offer when we believe the market conditions are favorable to do so.

Secured Revolving Line of Credit

We and our subsidiary, AMD International Sales & Service, Ltd. (together, the Borrowers), entered into a loan and security agreement on November 12, 2013, as amended on December 11, 2014 (the Loan Agreement) for our Secured Revolving Line of Credit for a principal amount of up to $500 million, with up to $75 million available for issuance of letters of credit, with a group of lenders and Bank of America, N.A., acting as agent for the lenders (the Agent). Our Secured Revolving Line of Credit matures on November 12, 2018. Borrowings under our Secured Revolving Line of Credit are limited to up to 85% of eligible account receivable minus certain reserves and may be used for general corporate purposes, including working capital needs.

The Borrowers can elect that the borrowings under our Secured Revolving Line of Credit may bear interest at a rate per annum equal to (a) London Interbank Offered Rate (LIBOR) plus an applicable margin ranging from 2.00% to 2.75%, or (b) (i) the greater of (x) the Agent’s prime rate, (y) the federal funds rate as published by the Federal Reserve Bank of New York plus 0.50%, and (z) LIBOR for a one-month period plus 1.00%, plus (ii) an applicable margin ranging from 1.00% to 1.75%. The applicable margin to be applied to the borrowings under our Secured Revolving Line of Credit is dependent on the Borrowers achieving a certain fixed charge coverage ratio. Our Secured Revolving Line of Credit may be optionally prepaid or terminated or unutilized commitments may be reduced, in each case at any time without premium or penalty. In connection with our Secured Revolving Line of Credit, the Borrowers are required to pay an unused line fee equal to 0.50% per annum, payable monthly on the unused amount of the commitments under our Secured Revolving Line of Credit. The unused line fee decreases to 0.375% per annum when more than 50% of our Secured Revolving Line of Credit is utilized. The Borrowers will pay (i) a monthly fee on all letters of credit outstanding under our Secured Revolving Line of Credit equal to the applicable LIBOR margin and (ii) a fronting fee to the Agent equal to 0.125% of all such letters of credit, payable monthly in arrears.

The obligations under the Loan Agreement are secured by a first priority basis in the Borrowers’ account receivable, inventory and certain deposit accounts and specified related assets.

The Loan Agreement contains covenants that place certain restrictions on the Borrowers’ ability to, among other things, amend or modify certain terms of any debt of $50 million or more or subordinated debt, create or suffer to exist any liens upon accounts or inventory, sell or transfer any of Borrowers’ accounts or inventory other than certain ordinary-course transfers, make certain changes to either Borrower’s name or form or state of organization without notifying the Agent, or liquidate, dissolve, merge, combine or consolidate. Further restrictions apply during a domestic cash trigger period (a Domestic Cash Trigger Period), which occurs (i) upon an event of default or (ii) when the amount of domestic cash or cash equivalents held in certain accounts is at any time less than $250 million, and ends when both (a) no event of default has existed for 45 days and (b) the amount of domestic cash or cash equivalents held in such accounts has been equal to or greater than $250 million for 45 days. Such restrictions limit the Borrowers’ ability to, among other things, allow certain subsidiaries that manufacture or process inventory for the Borrowers to borrow secured debt or unsecured debt beyond a certain amount, create any liens upon any of the Borrowers’ property (other than customary permitted liens and liens on up to $1.5 billion of secured credit facilities debt (which amount includes our Secured Revolving Line of Credit)), declare or make any distributions, create any encumbrance on the ability of a subsidiary to make any upstream payments, make asset dispositions other than certain ordinary course dispositions, make certain loans, make payments with respect to subordinated debt or certain borrowed money prior to its due date, become a party to certain agreements restricting the Borrowers' ability to incur or repay debt, grant liens, make distributions, or modify loan agreements or enter into any non-arm's-length transaction with an affiliate.

During a Domestic Cash Trigger Period, the Borrowers are subject to financial covenants requirement and are required to maintain a fixed charge coverage ratio of 1:1 for each trailing four-fiscal quarter period ending on and after March 29, 2014.

At December 27, 2014, the Secured Revolving Line of Credit had an outstanding loan balance of $130 million, with an interest rate of 4.25%, $6 million related to outstanding Letters of Credit, and up to $364 million available for future borrowings. As of December 27, 2014, we were in compliance with all required covenants stated in the Loan Agreement.

The agreements governing our 6.00% Notes, 6.75% Notes, 7.75% Notes, 7.50% Notes, 7.00% Notes and our Secured Revolving Line of Credit contain cross-default provisions whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. The occurrence of a default under any of these borrowing arrangements would permit the applicable note holders or the lenders under the Secured Revolving Line of Credit to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable.

Other Long-Term Liabilities

Other long-term liabilities in the contractual obligations table above primarily consisted of $67 million of payments due under certain software and technology licenses that will be paid through 2018.

Other long-term liabilities in the contractual obligations table above exclude amounts recorded on our consolidated balance sheet that do not require us to make cash payments, which, as of December 27, 2014, primarily consisted of $17 million of deferred gains resulting from certain real estate transactions that occurred in Sunnyvale, California in 1998, in Markham, Ontario, Canada in 2008 and in Singapore in 2013. Deferred rent related to our facilities in Sunnyvale, California of $7 million and accruals related to facility consolidation and site closure costs under our 2012 restructuring plan of $6 million are excluded from other long-term liabilities in the contractual obligations table above as they are included in the operating leases obligations. Also excluded from other long-term liabilities in the contractual obligations table above are $5 million of environmental reserves and $3 million of non-current unrecognized tax benefits, which represent potential cash payments that could be payable by us upon settlements with the related authorities. We have not included these amounts in the contractual obligations table above because we cannot make reasonably reliable estimates regarding the timing of the settlements with the related authorities, if any.

Capital Lease Obligations

As of December 27, 2014, we had aggregate outstanding capital lease obligations of $12 million for one of our facilities in Canada, which is payable in monthly installments through 2017.

Operating Leases

We lease certain of our facilities, and in some jurisdictions, we lease the land on which these facilities are built under non-cancelable lease agreements that expire at various dates through 2025. We lease certain manufacturing and office equipment for terms ranging from one to five years. Total future non-cancelable lease obligations as of December 27, 2014 were $340 million, including approximately $284 million of future lease payments and estimated operating costs related to real estate in Austin, Texas, Sunnyvale, California and Singapore that we sold and leased back.

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Purchase Obligations

Our purchase obligations primarily include our obligations to purchase wafers and substrates from third parties, excluding our wafer purchase commitments to GF under the WSA. As of December 27, 2014, total non-cancelable purchase obligations were $688 million.

Obligations to GF

Obligations to GF represent all of our expected cash payments to GF based on wafer receipts and research and development activities. As of December 27, 2014, payments owed to GF were $80 million. We are currently in the process of negotiating a fifth amendment to the WSA, and we expect that our future purchases from GF will continue to be material.

Off-Balance Sheet Arrangements

As of December 27, 2014, we had no off-balance sheet arrangements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and long-term debt. We usually invest our cash in investments with short maturities or with frequent interest reset terms. Accordingly, our interest income fluctuates with short-term market conditions. As of December 27, 2014, our investment portfolio consisted primarily of commercial paper, corporate bonds and money market funds. These investments were highly liquid. Due to the relatively short, weighted-average maturity of our investment portfolio and the current low interest rate environment, our exposure to interest rate risk is minimal.

As of December 27, 2014, the majority of our outstanding debt had fixed interest rates. Consequently, our exposure to market risk for changes in interest rates on reported interest expense and corresponding cash flows is minimal.

We will continue to monitor our exposure to interest rate risk.

Default Risk. We mitigate default risk in our investment portfolio by investing in only high credit quality securities and by constantly positioning our portfolio to respond to a significant reduction in a credit rating of any investment issuer or guarantor. Our portfolio includes investments in debt and marketable equity securities with active secondary or resale markets to ensure portfolio liquidity. We are averse to principal loss and strive to preserve our invested funds by limiting default risk and market risk.

We actively monitor market conditions and developments specific to the securities and security classes in which we invest. We believe that we take a conservative approach to investing our funds in that we invest only in highly-rated debt securities with relatively short maturities and do not invest in securities we believe involve a higher degree of risk. As of December 27, 2014, substantially all of our investments in debt securities were A rated by at least one of the rating agencies. While we believe we take prudent measures to mitigate investment related risks, such risks cannot be fully eliminated as there are circumstances outside of our control.

There were no sales of available-for-sale securities during 2014.

The following table presents the cost basis, fair value and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations as of December 27, 2014:

	2015	2016	2017	2018	2019	2020 and thereafter	Total	2014 Fair Value
	(In millions, except for percentages)							
Investment Portfolio								
Cash equivalents:								
Fixed rate amounts	$ 410	$—	$—	$—	$ —	$ —	$ 410	$ 410
Weighted-average rate	0.13%	—	—	—	—	—	0.13%	
Variable rate amounts	$ 4	$—	$—	$—	$ —	$ —	$ 4	$ 4
Weighted-average rate	5.68%	—	—	—	—	—	5.68%	
Marketable securities								
Fixed rate amounts	$ 235	$—	$—	$—	$ —	$ —	$ 235	$ 235
Weighted-average rate	0.30%	—	—	—	—	—	0.30%	
Total Investment Portfolio	$ 649	$—	$—	$—	$ —	$ —	$ 649	$ 649
Debt Obligations								
Fixed rate amounts	$ 172	$—	$—	$—	$ 600	$ 1,425	$2,197	$ 2,031
Weighted-average effective interest rate	5.17%	— %	— %	— %	6.75%	7.40%	7.05%	7.63%
Total Debt Obligations	**$ 172**	**$—**	**$—**	**$—**	**$ 600**	**$ 1,425**	**$2,197**	**$ 2,031**

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Foreign Exchange Risk. As a result of our foreign operations, we incur costs and we carry assets and liabilities that are denominated in foreign currencies, while sales of products are primarily denominated in U.S. dollars.

We maintain a foreign currency hedging strategy, which uses derivative financial instruments to mitigate the risks associated with changes in foreign currency exchange rates. This strategy takes into consideration all of our exposures. We do not use derivative financial instruments for trading or speculative purposes.

In applying our strategy, from time to time, we use foreign currency forward contracts to hedge certain forecasted expenses denominated in foreign currencies. We designate these contracts as cash flow hedges of forecasted expenses, to the extent eligible under the accounting rules, and evaluate hedge effectiveness prospectively and retrospectively. As such, the effective portion of the gain or loss on these contracts is reported as a component of accumulated other comprehensive income (loss) and reclassified to earnings in the same line item as the associated forecasted transaction and in the same period during which the hedged transaction affects earnings. Any ineffective portion is immediately recorded in earnings.

We also use, from time to time, foreign currency forward contracts to economically hedge recognized foreign currency exposures on the balance sheets of various subsidiaries. We do not designate these forward contracts as hedging instruments. Accordingly, the gain or loss associated with these contracts is immediately recorded in earnings.

The following table provides information about our foreign currency forward contracts as of December 27, 2014 and December 28, 2013. All of our foreign currency forward contracts mature within 12 months.

	December 27, 2014			December 28, 2013		
	Notional Amount	Average Contract Rate	Estimated Fair Value Gain (Loss)	Notional Amount	Average Contract Rate	Estimated Fair Value Gain (Loss)
	(In millions except contract rates)					
Foreign currency forward contracts:						
Canadian Dollar	$ 143	1.1264	$ (5.0)	$ 124	1.0409	$ (4.0)
Malaysian Ringgit	42	3.5482	—	—	—	—
Indian Rupee	35	64.1608	(1.1)	—	—	—
Singapore Dollar	33	1.313	(0.4)	—	—	—
Taiwan Dollar	23	31.1284	(0.4)	—	—	—
Chinese Renminbi	22	6.1906	0.1	—	—	—
Total	**$ 298**		**$ (6.8)**	**$ 124**		**$ (4.0)**

In addition, we use fixed-to-floating interest rate swaps to manage a portion of our exposure to interest rate risk by converting fixed rate interest payments of a portion of our 6.75% Notes to floating rate interest payments based on LIBOR. The notional amount of the interest rate swap we entered into was $250 million as of December 27, 2014. The interest rate swaps are designated as a fair value hedge. All changes in fair value of the swaps are recorded on the Company's consolidated balance sheets with no net impact to the Company's consolidated statements of operations.