Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

You should read the following discussion and analysis in conjunction with our Consolidated Financial Statements and related Notes thereto included in Part IV, Item 15 of this Report and the "Risk Factors" included in Part I, Item 1A of this Report, as well as other cautionary statements and risks described elsewhere in this Report, before deciding to purchase, hold or sell our common stock.

Overview

Broadcom Corporation (including our subsidiaries, referred to collectively in this Report as "Broadcom," "we," "our" and "us") is a global leader and innovator in semiconductor solutions for wired and wireless communications. Broadcom provides one of the industry's broadest portfolio of highly-integrated SoCs that seamlessly deliver voice, video, data and multimedia connectivity in the home, office and mobile environments.

Our solutions are used globally by leading manufacturers and are embedded in an array of communications products. Because we leverage our technologies across different markets, certain of our integrated circuits may be incorporated into products used in multiple platforms. We utilize independent foundries and third-party subcontractors to manufacture, assemble and test all of our semiconductor products. Our business is structured around two reportable segments: (i) Broadband and Connectivity; and (ii) Infrastructure and Networking.

Operating Results for the Year Ended December 31, 2014

In 2014 our net income was $652 million, as compared to net income of $424 million in 2013. The resulting increase in profitability was primarily the result of (i) a 1.5% increase in total net revenue, (ii) a gross profit margin improvement of 60 basis points due to favorable product mix, (iii) a net reduction of $103 million in research and development; and selling, general and administrative expenses, primarily associated with the restructuring plan that we initiated in July 2014 related to the exit of the cellular baseband business, and (iv) a net decrease in charges for the impairment of long-lived assets of $107 million. This was partially offset by a net increase in restructuring costs of $129 million.

Other highlights during 2014 include the following:

- Our cash and cash equivalents and marketable securities were $5.99 billion at December 31, 2014, compared with $4.37 billion at December 31, 2013. We generated cash flow from operations of $1.93 billion during 2014, as compared to $1.79 billion in 2013.
- In January 2014 our Board of Directors adopted an amendment to our existing dividend policy pursuant to which we increased our quarterly cash dividend by 9.0% to $0.12 per share ($0.48 per share on an annual basis) payable to holders of our common stock.
- We repurchased 14.7 million shares of our Class A common stock at a weighted average price of $35.53.
- In March 2014 we sold certain Ethernet controller-related assets and provided non-exclusive licenses to intellectual property, including a non-exclusive patent license, to QLogic for a total of $209 million, referred to as the QLogic Transaction. In connection with the transaction, we recorded a gain on the sale of assets of $48 million (net of a goodwill adjustment of $37 million) and deferred revenue of $120 million.
- In March 2014 we recorded impairment charges, primarily for completed technology, of $25 million related mainly to our acquisition of SC Square Ltd., or SC Square, and the Renesas Transaction.
- In June 2014 and September 2014, we recorded purchased intangible impairment charges of $35 million and $200 million, respectively, related to our acquisition of NetLogic Microsystems, Inc., or NetLogic, in 2012.
- As discussed below under "Exit of Cellular Baseband Business," we recorded $152 million of restructuring costs, $144 million of non-cash charges for the impairment of certain long-lived assets, and $27 million for inventory charges in 2014.
- In July 2014 we issued senior unsecured notes in an aggregate principal amount of $600 million, which consist of (i) $350 million aggregate principal amount of notes that mature in August 2024 and bear

interest at a fixed rate of 3.500% per annum and (ii) $250 million aggregate principal amount of notes that mature in August 2034 and bear interest at a fixed rate of 4.500% per annum.
- In August 2014 we utilized a portion of our net proceeds from the issuance of senior unsecured notes discussed above to redeem $400 million principal aggregate amount of our 2.375% senior notes that were due November 2015. As a result of this transaction, we recorded interest expense of $11 million in the three months ended September 30, 2014, primarily due to the premium paid upon redemption of those notes.
- In November 2014 our Board of Directors adopted an amendment to our existing dividend policy pursuant to which we intend to increase the quarterly cash dividend by 17% to $0.14 per share for each quarter in 2015 ($0.56 per share on an annual basis).
- In November 2014 our Board of Directors authorized a share repurchase program for the repurchase of up to $1.0 billion.

See Note 12 of Notes to Consolidated Financial Statements for details of our quarterly financial data.

Reportable Segments

The following table presents details of our reportable segments, and the “Cellular Baseband” and “All Other” categories:

	Reportable Segments					
	Broadband and Connectivity	Infrastructure and Networking	Total Reportable Segments	Cellular Baseband	All Other	Consolidated
	(In millions)					
Year Ended December 31, 2014						
Net revenue	$ 5,535	$ 2,525	$ 8,060	$ 368	$ —	$ 8,428
Operating income (loss)	1,086	685	1,771	(339)	(738)	694
Operating margin	19.6%	27.1%	22.0%	(92.1)%		8.2%
Year Ended December 31, 2013						
Net revenue	$ 5,430	$ 2,155	$ 7,585	$ 634	$ 86	$ 8,305
Operating income (loss)	1,003	412	1,415	(369)	(574)	472
Operating margin	18.5%	19.1%	18.7%	(58.2)%		5.7%
Year Ended December 31, 2012						
Net revenue	$ 5,232	$ 1,911	$ 7,143	$ 677	$ 186	$ 8,006
Operating income (loss)	990	189	1,179	(169)	(334)	676
Operating margin	18.9%	9.9%	16.5%	(25.0)%		8.4%

We have provided combined financial information for our Broadband and Connectivity; and Infrastructure and Networking reportable segments above (shown as “Total Reportable Segments”) to assist in understanding the trends of our ongoing business. The “Cellular Baseband” category shown in the table above represents the operations of the cellular baseband business that is currently winding down. In addition, as the cellular baseband business has not completely ceased operations and will continue to generate revenue, albeit declining, and expenses for the foreseeable future, it does not currently meet the requirements for “discontinued operations” under applicable accounting standards. We have included net revenue and operating loss in the above table as if our cellular baseband business did meet the requirements of a reportable segment because we believe this information is useful to readers of our financial statements. See Notes 10 and 11 of Notes to Consolidated Financial Statements for further information.

All prior-period amounts above have been adjusted retrospectively to (i) reflect our 2014 organizational and reportable segment changes, (ii) add a cellular baseband business category, and (iii) include stock-based compensation expense in our reportable segments and cellular baseband category (as certain of our financial targets for our reportable segments now include stock-based compensation).

Broadband and Connectivity. The increase in operating income from 2012 to 2014 resulted from increases in net revenue in set-top box and broadband modem solutions driven by operator upgrade cycles, broadband subscriber growth, market share gains and a richer mix of features in our latest generation of integrated solutions. We also saw improved gross margin driven by mix, as revenue growth within this reportable segment was disproportionately driven by our set-top box and broadband modem businesses.

Infrastructure and Networking. The increase in operating income from 2012 to 2014 was driven primarily by an increase in revenue in Ethernet Switch and PHY driven by continued evolution of service provider networks to Ethernet technology and continued deployments of large-scale data centers that require high density Ethernet Switch solutions in aggregation points throughout the network. We also saw improved gross margin due to the relative strength in sales of Ethernet Switch-related products. Operating income also benefited from reduced investment in Ethernet Controller products due to the sale of certain assets to QLogic Corporation, or QLogic.

Cellular Baseband. Due to the lengthy product development and sales cycle for LTE products, and our investment in LTE-related technologies, including the Renesas Transaction, significant research and development expense negatively impacted our operating income over the last several years. As discussed below under "Exit of Cellular Baseband Business," we decided to wind down our cellular baseband business as the commercial and economic opportunity was not sufficient to justify the continued investment.

For additional information about our changes in reportable segments and the "All Other" category (including revenue and expense items reported under the "All Other" category), see further discussion in Note 11 of Notes to Consolidated Financial Statements as well as the "Net Revenue by Reportable Segments" discussion below.

2014 Exit of Cellular Baseband Business

On June 2, 2014, we announced that we were exploring strategic alternatives, including a potential sale and/or wind-down, for our cellular baseband business, previously included in our former Mobile and Wireless reportable segment. See Note 11 of Notes to Consolidated Financial Statements for a discussion of recent changes to our reportable segments. We reached this decision based on our conclusion that the commercial and economic opportunity in this business was not sufficiently compelling to justify the continued investment, especially when compared to other opportunities within our product portfolio. On June 26, 2014, the Audit Committee of our Board of Directors approved a global restructuring plan, or the 2014 Plan, that focuses on cost reductions and operating efficiencies and better aligns our resources to areas of strategic focus.

In July 2014 we decided to pursue a wind-down of the cellular baseband business. As of December 31, 2014, we had substantially completed a reduction to our worldwide headcount by approximately 2,300 employees and terminated various contracts. We are also in the process of closing or consolidating up to 19 locations.

We recorded $152 million in restructuring charges in 2014 primarily related to the exit of the cellular baseband business. These charges are comprised of (i) $130 million for ongoing and one-time termination benefits primarily for employees performing research and development and marketing functions in the cellular baseband business and for employees performing selling, general and administrative and other corporate functions and (ii) $22 million for certain non-cancelable contract and facility costs. We expect to record additional restructuring charges of approximately $40 million over the next 12 months for costs associated with the closure and consolidation of several facilities.

As part of these actions, we also recorded $144 million of non-cash charges for the impairment of certain long-lived assets and $27 million of inventory charges in 2014. See Note 10 of Notes to Consolidated Financial Statements for further information.

The wind-down of the cellular baseband business and associated cost saving initiatives are currently expected to result in up to approximately $650 million in reduced annualized research and development and selling, general and administrative expenses, of which up to approximately $50 million relates to estimated reductions in stock-based compensation. We currently expect to organically reinvest approximately $50 million of these savings on an annualized basis into projects in our Broadband and Connectivity; and Infrastructure and Networking reportable segments. This incremental spending is currently expected to strengthen and accelerate our plans in the area of small cells, Ethernet switches and low-power connectivity.

Factors That May Impact Net Income

Our net income has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- our product mix and volume of product sales and corresponding gross margin (see further discussion below under "*Factors That May Impact Net Revenue*" and "*Factors That May Impact Gross Margin*");
- levels of research and development and other operating costs (organic or acquired);
- stock-based compensation expense;
- licensing and income from intellectual property;
- impairment of goodwill and other long-lived assets;
- deferral of revenue and costs under multiple-element arrangements;
- amortization of purchased intangible assets;
- settlement costs or gains;
- cash-based incentive compensation expense;
- litigation costs and insurance recoveries;
- changes in tax laws, adjustments to tax reserves and the results of income tax audits;
- the loss of interest income resulting from lower average interest rates and investment balance reductions resulting from expenditures on repurchases of our Class A common stock, dividends and acquisitions of businesses;
- restructuring costs; and
- charitable contributions.

Product Cycles. The cycle for test, evaluation and adoption of our products by customers can range from three to more than nine months, with an additional three to more than 12 months before a customer commences volume production of equipment or devices incorporating our products. Due to this lengthy sales cycle, we may experience significant delays from the time we incur expenses for research and development, selling, general and administrative efforts, and investments in inventory, to the time we generate corresponding revenue, if any. The rate of new orders may vary significantly from month to month and quarter to quarter. If anticipated sales or shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our results of operations for that quarter, and potentially for future quarters, would be materially and adversely affected.

Acquisition Strategy. Historically, an element of our business strategy involves the acquisition of businesses, assets, products or technologies that allow us to reduce the time or costs required to develop new technologies and products and bring them to market, incorporate enhanced functionality into and complement our existing product offerings, augment our engineering workforce, and enhance our technological capabilities. We plan to continue to evaluate strategic opportunities concurrently with our increased capital return strategy, including acquisitions and other business combination transactions, strategic relationships and the purchase or sale of assets.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles, or GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses in the reporting period. We regularly evaluate our estimates and assumptions related to revenue recognition, rebates, allowances for doubtful accounts, sales returns and allowances, warranty obligations, inventory valuation, stock-based compensation expense, goodwill and purchased intangible asset recoverability, strategic investments, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, self-insurance liabilities, restructuring costs, litigation and other loss contingencies. We base our estimates and assumptions on current facts, historical experience and various other factors 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 and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

We believe the following are critical accounting policies that require us to make significant estimates, assumptions or judgments:

- *Net Revenue and Related Pricing Adjustments.* Establishing accruals for pricing adjustments requires the use of judgment and estimates that impact the amount and timing of revenue recognition. We record reductions of revenue for pricing adjustments, such as competitive pricing programs and rebates, in the same period that the related revenue is recorded. We accrue 100% of potential rebates at the time of sale and do not apply a breakage factor. We reverse the accrual of unclaimed rebate amounts as specific rebate programs contractually end and when we believe unclaimed rebates are no longer subject to payment and will not be paid. Thus the reversal of unclaimed rebates may have a positive impact on our net revenue and net income in subsequent periods. Additional reductions of revenue would result if actual pricing adjustments exceed our estimates.

- *Inventory.* We write down the carrying value of our inventory to net realizable value for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions. If our judgments about actual demand and market conditions are less favorable than those projected at the time we issue our financial statements, additional inventory write-downs could be required, which would increase our cost of revenue and reduce our gross margins.

- *Goodwill and Purchased Intangible Assets.* We evaluate goodwill by reporting unit either on an annual basis in the fourth quarter or more frequently if we believe indicators of impairment exist that would more likely than not reduce the fair value of a reporting unit below its carrying value or for other purchased intangible assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Significant management judgment is required in performing these tests and in the creation of the forecasts of future operating results that are used in the discounted cash flow method of valuation, including (i) estimation of future cash flows, which is dependent on internal forecasts, (ii) estimation of the long-term rate of growth for our business, (iii) estimation of the useful life over which cash flows will occur, (iv) terminal values, if applicable, and (v) the determination of our weighted average cost of capital, which helps determine the discount rate. It is possible that these forecasts may change and our performance projections included in our forecasts of future results prove to be inaccurate. If our actual results, or the forecasts and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. The value of our goodwill and purchased intangible assets could also be impacted by future adverse changes such as: (i) a decline in the valuation of technology company stocks, including the valuation of our common stock, (ii) a significant slowdown in the worldwide economy or the semiconductor industry, or (iii) the abandonment of any of our acquired in-process research and development, or IPR&D, projects.

- *Deferred Taxes and Uncertain Tax Positions.* We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Significant judgment is required in assessing all the future tax consequences that have been recognized in our consolidated financial statements. Variations in the actual outcome of these future tax consequences could materially impact our consolidated financial statements. Forming a conclusion that a valuation allowance is not required is very difficult when there is negative evidence such as cumulative losses in recent years. In the future, if we realize a deferred tax asset that currently carries a valuation allowance, we may record a reduction of income tax expense in the period of such realization. Conversely, if we were to determine that we would not be able to realize all or a portion of our deferred tax assets in the future, we would reduce such amounts through an increase to tax expense in the period in which that determination is made.

  As a multinational corporation, we are subject to taxation in many jurisdictions, and the assessment of our income tax positions involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. In addition, the application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

- *Litigation and Settlement Costs.* We are involved in disputes, litigation and other legal proceedings. We prosecute and defend these matters aggressively. However, there are many uncertainties associated with any litigation, and we cannot provide assurance that these actions or other third party claims against us will be resolved without costly litigation and/or substantial settlement costs. In addition, the resolution of intellectual property litigation may require us to pay damages for past alleged infringement or to obtain a license under the other party’s intellectual property rights that could require one-time license fees or running royalties, which could adversely impact gross margins in future periods, or could prevent us from manufacturing or selling some of our products or limit or restrict the type of work that employees involved in such litigation may perform for Broadcom. If any of those events were to occur, our business, financial condition and results of operations could be materially and adversely affected.

  We account for intellectual property settlement agreements as multiple element arrangements and allocate the consideration to the identifiable elements based on relative fair value. Generally the identifiable elements are (i) the licensing of intellectual property for future use and (ii) payments related to alleged prior infringement. We continually evaluate the uncertainties associated with litigation and record a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether a liability can be reasonably estimated. Accordingly, the outcomes of legal proceedings and/or our ability to settle disputes on terms acceptable to us are subject to significant uncertainty. Should we choose to pay significant sums in settling a dispute or should material legal matters be resolved against us, the operating results of a particular reporting period could be materially adversely affected. Given the complexity of evaluating the probability and range of potential litigation losses and appropriately allocating the consideration in multiple element arrangements relating to settlements of intellectual property litigation, we frequently use third-party valuation and law firms to assist us in this regard.

See Note 1 of Notes to Consolidated Financial Statements for additional information regarding our critical and significant accounting policies.

Net Revenue

Our revenue consists principally of sales of semiconductor devices and, to a lesser extent, licensing of our intellectual property, software licenses and royalties, development, support and maintenance agreements, data services and cancellation fees. The majority of our product sales occur through the efforts of our direct sales force. The remaining balance of our product sales occurs through distributors.

The following tables present net revenue from each of our reportable segments, and the "Cellular Baseband" and "All Other" categories:

	Year Ended December 31,			2014 vs 2013		2013 vs 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
	(In millions, except percentages)						
Broadband and Connectivity	$ 5,535	$ 5,430	$ 5,232	$ 105	1.9 %	$ 198	3.8 %
Infrastructure and Networking	2,525	2,155	1,911	370	17.2	244	12.8
Total reportable segments	8,060	7,585	7,143	475	6.3	442	6.2
Cellular Baseband	368	634	677	(266)	(42.0)	(43)	(6.4)
All Other	—	86	186	(86)	(100.0)	(100)	(53.8)
Total net revenue	$ 8,428	$ 8,305	$ 8,006	$ 123	1.5	$ 299	3.7

	Year Ended December 31,		
	2014	2013	2012
	(as a % of net revenue)		
Broadband and Connectivity	65.6%	65.5%	65.3%
Infrastructure and Networking	30.0	25.9	23.9
Total reportable segments	95.6	91.4	89.2
Cellular Baseband	4.4	7.6	8.5
All Other	—	1.0	2.3
Total net revenue	100.0%	100.0%	100.0%

Broadband and Connectivity. The increase in 2014 net revenue resulted primarily from increases in sales of our set-top box (STB) solutions of $169 million and our broadband modem solutions of $148 million, offset in part by decreases in our wireless connectivity products of $181 million and other broadband and connectivity technologies of $31 million. The increase in 2013 net revenue resulted primarily from an increase in sales of both our STB solutions of $150 million and wireless connectivity products of $80 million, partially offset by a reduction in sales of our broadband modem products of $24 million and other broadband and connectivity technologies of $8 million. STB growth is generally driven by the adoption of new communication features (including HEVC, multi-stream transcoding and MoCA 2.0), market share gains, geographic expansion, particularly in developing markets, and the roll-out of more highly integrated platforms by global service providers. Growth in sales of broadband modem solutions is generally driven by subscriber growth, global deployments and upgrades of broadband infrastructure, the adoption of new features and technologies (including DOCSIS 3.0 and VDSL) and market share gains. The decline in wireless connectivity revenue is driven principally by the impact of the slowing growth rate in the smartphone market, particularly in higher-end devices, and reduced sales into low-cost smartphones. Low-cost smartphones have trended toward integrated platforms from single suppliers, which in many cases tend not to include our wireless connectivity solutions.

Infrastructure and Networking. The increase in 2014 net revenue resulted from increases in sales of our Ethernet switches and PHYs of $268 million, processors of $75 million and our Ethernet controller products of $22 million. The increase in 2013 net revenue resulted primarily from increases in sales of our Ethernet switches and PHYs of $193 million, processors of $51 million and other infrastructure and networking technologies of $29 million, offset in part by a decrease in sales of our controller products of $29 million. Growth in Ethernet switches and PHYs is generally driven by continued build outs of packet-based networks to support the delivery of video and mobile data over the Internet, an increase in hosted services and cloud computing, the ongoing growth in unified communications in the enterprise, and market share gains. Growth in sales of our processor solutions is driven by growth in sales of SoCs that incorporate processor and switch functionality and serve a wide range of end markets, including point-of-sale devices and enterprise and retail routers.

Cellular Baseband. The decrease in 2014 net revenue resulted primarily from our decision in July 2014 to wind down our cellular baseband business as the commercial and economic opportunity did not sufficiently justify the continued investment. Due to our announced exit of the cellular baseband business, we expected associated revenue to significantly ramp down in the near term and trend to zero over the next 12 to eighteen months.

All Other. The decrease in 2013 and 2014 resulted from the termination of the Qualcomm Agreement in April 2013. Income from the Qualcomm Agreement was derived from our April 2009 agreement with Qualcomm Incorporated, or the Qualcomm Agreement, which provided for the the licensing of our intellectual property to Qualcomm. The income from the Qualcomm Agreement terminated in April 2013, however, the term of the Qualcomm Agreement will continue until the expiration of the last to expire of the covered patents. It is unlikely that we will be able to enter into similar arrangements of this magnitude in the future. For additional information, see Note 1 of Notes to Consolidated Financial Statements.

Rebates. We recorded rebates to certain customers of $881 million, or 10.5% of net revenue, $888 million, or 10.7% of net revenue, and $727 million, or 9.1% of net revenue, in 2014, 2013 and 2012, respectively. The change in rebates as a percent of net revenue was attributable to a change in the mix of sales to customers that participate in rebate programs, primarily in the Broadband and Connectivity reportable segment. We reverse the accrual of unclaimed rebate amounts as specific rebate programs contractually end or when we believe unclaimed rebates are no longer subject to payment and will not be paid. We reversed accrued rebates of $33 million, $21 million and $18 million, in 2014, 2013 and 2012, respectively. We anticipate that accrued rebates will vary in future periods based upon the level of overall sales to customers that participate in our rebate programs.

Concentration of Net Revenue

Sales to our significant customers, including sales to their manufacturing subcontractors, as a percentage of net revenue were as follows:

	Year Ended December 31,		
	2014	**2013**	**2012**
Samsung	14.2%	21.3%	17.3%
Apple	14.0	13.3	14.6
Five largest customers as a group	44.1	48.3	46.9

No other customer represented more than 10% of our annual net revenue in these years.

We expect that our largest customers will continue to account for a substantial portion of our total net revenue for the foreseeable future. Our largest customers and their respective contributions to our total net revenue have varied and will likely continue to vary from period to period. For additional information about geographical information of our net revenue, see further discussion in Note 11 of Notes to Consolidated Financial Statements.

From time to time, our key customers place large orders causing our quarterly net revenue to fluctuate significantly. We expect that these fluctuations will continue and that they may be exaggerated by the seasonal variations in consumer products and changes in the overall economic environment. For these and other reasons, our total net revenue and results of operations for the year ended December 31, 2014, and prior periods may not necessarily be indicative of future net revenue and results of operations.

Factors That May Impact Net Revenue

The demand for our products and the subsequent recognition of net revenue has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- general economic and specific conditions in the markets we address, including the continuing volatility in the technology sector and semiconductor industry, and trends in the wired and wireless communications markets in various geographic regions, including seasonality in sales of consumer products into which our products are incorporated;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers and distributors, to manage inventory;
- the timing of our distributors' shipments to their customers or when products are taken by our customers under hubbing arrangements;
- our ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a cost effective and timely manner;
- the rate at which our present and future customers and end-users adopt and ramp our products and technologies;
- the qualification, availability and pricing of competing products and technologies and the resulting effects on sales and pricing of our products; and
- the availability of credit and financing, which may lead certain of our customers to reduce their level of purchases or to seek credit or other accommodations from us.

Cost of Revenue, Gross Profit and Gross Margin

	Year Ended December 31,			2014 vs 2013		2013 vs 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
	(In millions, except percentages)						
Net revenue	$ 8,428	$ 8,305	$ 8,006	$ 123	1.5	$ 299	3.7
Cost of revenue	$ 4,098	$ 4,088	$ 4,027	$ 10	0.2	$ 61	1.5
Gross profit	$ 4,330	$ 4,217	$ 3,979	113	2.7%	$ 238	6.0%
Gross margin	51.4%	50.8%	49.7%				

Cost of Revenue, Gross Profit and Gross Margin. Cost of revenue comprises the cost of our semiconductor devices, which consists of the cost of purchasing finished silicon wafers manufactured by independent foundries, costs associated with our purchase of assembly, test and quality assurance services and packaging materials for semiconductor products, as well as royalties and license fees paid to vendors and to non-practicing entities, or NPEs. Also included in cost of revenue is the amortization of purchased technology and inventory valuation step-up, and manufacturing overhead, including costs of personnel and equipment associated with manufacturing support, product warranty costs, provisions for excess and obsolete inventories, and stock-based compensation expense for personnel engaged in manufacturing support.

Gross margin in 2014 increased to 51.4% primarily due to a 17.2% increase in net revenue in our Infrastructure and Networking reportable segment (which products typically have higher gross margins), as well as a decline in revenue related to our cellular baseband business (which products have lower gross margins), offset in part by increases in amortization of purchased intangibles of $14 million and excess and obsolete inventory expense of $5 million. Gross margin in 2013 increased to 50.8% primarily due to a reduction of inventory valuation step-up of $71 million and a decrease in amortization of purchased intangibles of $27 million, offset in part by an increase in excess and obsolete inventory expense of $20 million and a decrease in cancellation fees of $7 million. The decrease in 2013 amortization of purchased intangible assets primarily related to completed technology and customer relationships no longer being expensed due to the asset impairment charges taken during the year (see discussion below) and other assets becoming fully amortized in 2012. The decrease in the inventory valuation step-up was primarily the result of the sell through of inventory acquired from the acquisitions of NetLogic and BroadLight, Inc., or BroadLight, in 2012.

Gross margin includes $45 million, $125 million and $213 million of licensing revenue, including the income from the Qualcomm Agreement, related to our intellectual property in 2014, 2013 and 2012, respectively. Gross margin also includes $6 million, $27 million and $27 million of licensing costs related to NPEs in 2014, 2013, and 2012, respectively.

Factors That May Impact Gross Margin

Our gross margin has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- our product mix and volume of product sales (including sales to high volume customers);
- introduction of products with lower margins;
- the positions of our products in their respective life cycles;
- the effects of competition;
- the effects of competitive pricing programs and rebates;
- provisions for excess and obsolete inventories and their relationship to demand volatility;
- manufacturing cost efficiencies and inefficiencies;
- our ability to create cost advantages through successful integration and convergence;
- fluctuations in direct product costs such as silicon wafer costs and assembly, packaging and testing costs;
- our ability to advance to the next technology node faster than our competitors;
- licensing royalties payable by us, including licensing fees paid to NPEs;
- the consolidation of foundry subcontractors that could potentially drive increased wafer prices;
- product warranty costs;
- fair value and related amortization of acquired tangible and intangible assets; and
- amortization of acquired inventory valuation step-up.

Our gross margin may also be impacted by additional stock-based compensation expense, as discussed below, and the amortization of purchased intangible assets related to future acquisitions.

Research and Development Expense

Research and development expense consists primarily of salaries and related costs, including stock-based compensation, for employees engaged in research, design and development activities. In addition, we incur development and design costs, which are primarily costs related to engineering design tools, mask and prototyping costs, testing and subcontracting; and costs related to facilities and equipment expense.

The following table presents details of research and development expense:

	Year Ended December 31,			2014 vs 2013		2013 vs 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
	(In millions, except percentages)						
Salaries and benefits	$ 1,691	$ 1,783	$ 1,661	$ (92)	(5.2)%	$ 122	7.3%
Development and design costs	354	373	351	(19)	(5.1)	22	6.3
Other	328	330	306	(2)	(0.6)	24	7.8
Research and development	$ 2,373	$ 2,486	$ 2,318	$ (113)	(4.5)	$ 168	7.2
(as a % of net revenue)	28.2%	29.9%	29.0%				
Employees	8,000	9,800	8,700	(1,800)	(18.4)%	1,100	12.6%

The decrease in 2014 salaries and benefits was primarily attributable to our restructuring plan related to the exit of our cellular baseband business, partially offset by increases in headcount in our Broadband and Connectivity; and Infrastructure and Networking reportable segments. In addition, the timing of both the Renesas Transaction and the exit from the cellular baseband business also impacted the year-over-year trend in salaries and benefits in 2014. The increase in 2013 salaries and benefits was primarily attributable to an increase in headcount. Approximately 80% of the 2013 increase in headcount was attributable to the Renesas Transaction. The 2013 salaries and benefits increase was offset by lower incentive compensation. The increase in development and design costs in 2013 was primarily due to an increase in engineering design tool expenses. Development and design costs vary from period to period depending on the timing of development and tape-outs of various products. As we transition to 28 nanometer or smaller geometry process technologies, tape-out costs could increase. The increase in 2013 in the *Other* line item in the above table is primarily attributable to increases in depreciation expense and facility expenses related to the Renesas Transaction.

We remain committed to significant research and development efforts to extend our technology leadership in the wired and wireless communications markets in which we operate. Factors that may impact research and development costs include the diversification of the markets we serve, new product opportunities, the number of design wins that go into production, changes in our compensation policies, and any expansion into new markets and technologies, including acquisitions. In 2014 approximately 50% and 30% of our products were manufactured in 40 nanometers and 65 nanometers, respectively. We are designing most new products in 40 nanometers and 28 nanometers, and are beginning to develop products leveraging FinFET technologies. We currently hold more than 10,350 U.S. and more than 3,550 foreign patents and more than 6,550 additional U.S. and foreign pending patent applications. We maintain an active program of filing for and acquiring additional U.S. and foreign patents in wired and wireless communications and other fields.

Selling, General and Administrative Expense

Selling, general and administrative expense consists primarily of salaries and related costs, including stock-based compensation, for employees engaged in selling, general and administrative activities. We also incur legal and other professional fees, and facilities and depreciation expenses, among other items.

The following table presents details of selling, general and administrative expense:

	Year Ended December 31,			2014 vs 2013		2013 vs 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
	(In millions, except percentages)						
Salaries and benefits	$ 476	$ 473	$ 492	$ 3	0.6 %	$ (19)	(3.9)%
Legal and accounting fees	74	98	84	(24)	(24.5)	14	16.7
Other	166	135	120	31	23.0	15	12.5
Selling, general and administrative	$ 716	$ 706	$ 696	$ 10	1.4	$ 10	1.4
(as a % of net revenue)	8.5%	8.5%	8.7%				
Employees	1,950	2,000	1,900	(50)	(2.5)%	100	5.3 %

There was no material change to salaries and benefits in 2014, as the decrease in stock-based compensation was offset by an increase in cash salaries and benefits. Legal fees consist primarily of attorneys' fees and expenses related to our outstanding intellectual property litigation, patent prosecution and filings, and various other transactions. Legal fees fluctuate from period to period due to the nature, scope, timing and costs of the matters in litigation. See Note 8 of Notes to the Consolidated Financial Statements for further information. The increases in the *Other* line item in the above table are primarily attributable to increases in facilities and depreciation expenses in both 2013 and 2014.

Stock-Based Compensation Expense

The following table presents details of total stock-based compensation expense that is *included* in each functional line item in our consolidated statements of income:

	Year Ended December 31,			2014 vs 2013		2013 vs 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
	(In millions, except percentages)						
Cost of revenue	$ 22	$ 25	$ 27	$ (3)	(12.0)%	$ (2)	(7.4)%
Research and development	304	363	368	(59)	(16.3)	(5)	(1.4)
Selling, general and administrative	111	130	148	(19)	(14.6)	(18)	(12.2)
Total stock-based compensation	$ 437	$ 518	$ 543	$ (81)	(15.6)	$ (25)	(4.6)
(as of % of net revenue)	5.2%	6.3%	6.7%				

The decrease in stock-based compensation in 2014 was primarily attributable to certain assumed equity awards becoming fully vested during 2013 and the cancellation of equity awards held by employees who were terminated due to our decision to exit our cellular baseband business. The decrease in 2013 from 2012 related primarily to non-recurring accelerated vesting of equity awards in 2012 upon the termination of certain employees with change in control agreements in connection with our acquisition of NetLogic.

The following table presents details of unearned stock-based compensation currently estimated to be expensed in 2015 through 2019 related to unvested share-based payment awards:

	2015	2016	2017	2018	2019	Total
	(In millions)					
Unearned stock-based compensation	$ 295	$ 188	$ 98	$ 16	$ 2	$ 599

If there are any modifications or cancellations of the underlying unvested awards, including the cancellation of awards held by employees impacted by our current restructuring plan, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards or assume unvested equity awards in connection with acquisitions. See Note 7 of Notes to Consolidated Financial Statements for a discussion of activity related to share-based awards.

Amortization of Purchased Intangible Assets

The following table presents details of the amortization of purchased intangible assets *included* in the cost of revenue and other operating expense categories:

	Year Ended December 31,			2014 vs 2013		2013 vs 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
	(In millions, except percentages)						
Cost of revenue	$ 185	$ 171	$ 198	$ 14	8.2 %	$ (27)	(13.6)%
Other operating expenses	29	57	113	(28)	(49.1)	(56)	(49.6)
	$ 214	$ 228	$ 311	$ (14)	(6.1)	$ (83)	(26.7)

The decrease in 2014 amortization of purchased intangible assets primarily related to customer relationships no longer being expensed due to the NetLogic asset impairment charges taken during the year, offset by additional amortization of completed technology. The decrease in 2013 amortization of purchased intangible assets primarily related to completed technology and customer relationships no longer being expensed due to the asset impairments charges taken during the year (see discussion below) and other assets becoming fully amortized in 2012.

The following table presents details of the amortization of existing purchased intangible assets (including IPR&D), which is currently estimated to be expensed in 2015 and thereafter:

	Purchased Intangible Asset Amortization by Year						
	2015	2016	2017	2018	2019	Thereafter	Total
	(In millions)						
Cost of revenue	$ 144	$ 116	$ 98	$ 83	$ 64	$ 145	$ 650
Other operating expenses	4	3	2	3	2	—	14
	$ 148	$ 119	$ 100	$ 86	$ 66	$ 145	$ 664

We amortize our intangible assets with definitive lives using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used or, if that pattern cannot be reliably determined, using a straight-line method. In addition, based on our current assumptions, IPR&D assets will be reclassified to development technology through 2017 and amortized over their estimated useful lives. If we acquire additional purchased intangible assets in the future, our cost of product revenue or operating expenses will be increased by the amortization of those assets.

Impairment of Goodwill and Other Long-Lived Assets

We performed annual impairment assessments of the carrying value of goodwill in October2014, 2013 and 2012. Upon completion of these assessments, we determined no impairment was indicated as the estimated fair value of each of the reporting units exceeded its respective carrying value. For the carrying balances of our goodwill by reportable segment and a description of our valuation techniques and significant assumptions, see Note 9 of Notes to the Consolidated Financial Statements.

We recorded impairment charges of long-lived assets of$404 million, $511 million and $90 million, in 2014, 2013 and 2012, respectively. See discussion of our impairment of long-lived assets in Notes 9 and 10 of Notes to Consolidated Financial Statements as it relates to our decision to exit the cellular baseband business and wind down those operations, as well as the impairments of purchased intangible assets as they relate to certain acquisitions.

Restructuring Costs, Net

We recorded restructuring costs $158 million, $29 million and $7 million, in 2014, 2013 and 2012, respectively. See discussion of our restructuring costs in our "Exit of Cellular Baseband Business" section above and in Note 10 of Notes to Consolidated Financial Statements.

Settlement Costs (Gains)

We recorded net settlement costs of$16 million and $79 million, in 2014 and 2012, respectively, primarily related to the settlement of patent infringement claims. In 2013 we received payment of $75 million, net of contingent legal fees, and recorded this as a gain on settlement. In addition, we recorded settlement costs of $6 million, primarily related to patent infringement claims. See Note 8 of Notes to Consolidated Financial Statements.

Other Charges (Gains), Net

See discussion of our Other charges (gains), net, in Note 2 of Notes to Consolidated Financial Statements as it relates to the sale of certain Ethernet controller-related assets to QLogic in the three months ended March 31, 2014, and our charitable contribution made in September 2013. These other charges (gains) were recorded as a net operating expense (gain) in our consolidated statements of income.

Interest Expense and Other Income, Net

The following table presents interest expense and other income (expense), net:

	Year Ended December 31,			2014 vs 2013	2013 vs 2012
	2014	2013	2012	$ Change	
	(In millions)				
Interest expense, net	$ (36)	$ (30)	$ (30)	$ (6)	$ —
Other income, net	9	3	10	6	(7)
	$ (27)	$ (27)	$ (20)	$ —	$ (7)

Interest expense, net, reflects interest expense on our senior unsecured notes with an outstanding principal balance at December 31, 2014, of $1.60 billion, offset by interest income earned on cash, cash equivalents and marketable securities balances. Other income (expense), net, primarily includes gains and losses on foreign currency transactions, asset disposals and strategic investments.

The increases in interest expense in 2014 was driven primarily by the premium paid upon redemption of the 2015 Notes of $11 million. See discussion of our debt in Note 5 of Notes to Consolidated Financial Statements.

Provision for (Benefit of) Income Taxes

	Year Ended December 31,		
	2014	2013	2012
	(In millions, except percentages)		
Provision for (benefit of) income taxes	$ 15	$ 21	$ (63)
Effective tax rates	2.2%	4.7%	(9.6)%

The federal statutory rate was 35% for 2014, 2013 and 2012. The differences between our effective tax rates and the 35% federal statutory rate resulted primarily from foreign earnings taxed at substantially lower rates than the federal statutory rate and domestic tax losses recorded without tax benefits. See discussion of income taxes in Note 4 of Notes to Consolidated Financial Statements for further information in determining our annualized effective tax rates and a reconciliation of the federal statutory income tax rate to our effective tax rate.

We recorded tax benefits resulting from the reduction of certain foreign deferred tax liabilities of $5 million, $10 million, and $12 million in 2014, 2013 and 2012, respectively. We recorded tax benefits resulting from the expiration of statutes of limitations for the assessment of taxes in various foreign jurisdictions of $10 million, $9 million, and $13 million for 2014, 2013 and 2012, respectively. In addition, in 2012 we recorded tax benefits resulting from reductions in our domestic valuation allowance on certain deferred tax assets due to recording net deferred tax liabilities for identifiable intangible assets under purchase accounting of $51 million for certain of our acquisitions.

Previously, we operated under tax incentives in Singapore, which were effective through March 2014 and were conditional upon our meeting certain employment and investment thresholds. The impact of the Singapore tax incentives decreased Singapore taxes by $131 million, $423 million and $399 million for 2014, 2013 and 2012, respectively. The benefit of the tax incentives on net income per share (diluted) was $0.22, $0.73 and $0.69 for 2014, 2013 and 2012, respectively. For periods after March 31, 2014, we are utilizing our Irish trading companies, which results in similar foreign taxes as we incurred under our previous Singaporean tax incentives.

Liquidity and Capital Resources

Working Capital and Cash and Marketable Securities.

The following table presents working capital, cash and cash equivalents, and marketable securities:

	December 31, 2014	December 31, 2013	$ Change
	(In millions)		
Working capital	$ 3,522	$ 2,419	$ 1,103
Cash and cash equivalents	$ 2,545	$ 1,657	888
Short-term marketable securities	1,061	775	286
Long-term marketable securities	2,383	1,939	444
Total cash and cash equivalents and marketable securities	$ 5,989	$ 4,371	$ 1,618

See the summary of cash, cash equivalents, short and long-term marketable securities by major security type and discussion of market risk that follows in Item 7A. *Quantitative and Qualitative Disclosures about Market Risk.*

Cash Provided and Used in 2014, 2013 and 2012.

The following table presents cash provided and used:

	Year Ended December 31, 2014	2013	2012
	(In millions)		
Net cash provided by operating activities	$ 1,925	$ 1,785	$ 1,931
Net cash used in investing activities	(914)	(996)	(4,796)
Net cash provided by (used in) financing activities	(123)	(749)	336
Increase (decrease) in cash and cash equivalents	888	40	(2,529)
Cash and cash equivalents at beginning of period	1,657	1,617	4,146
Cash and cash equivalents at end of period	$ 2,545	$ 1,657	$ 1,617

Operating Activities

In 2014 our operating activities provided $1.93 billion in cash. This was primarily the result of net income of $652 million, net non-cash operating expenses of $1.19 billion and changes in operating assets and liabilities of $81 million. In 2013 our operating activities provided $1.79 billion in cash. This was primarily the result of net income of $424 million and net non-cash operating expenses of $1.43 billion, offset in part by changes in operating assets and liabilities of $67 million. In 2012 our operating activities provided $1.93 billion in cash. This was primarily the result of net income of $719 million, net non-cash operating expenses of $1.06 billion and changes in operating assets and liabilities of $152 million.

Our days sales outstanding decreased from 35 days at December 31, 2013, to 34 days at December 31, 2014. We typically bill customers on an open account basis subject to our standard net thirty day payment terms. If, in the longer term, our revenue increases, it is likely that our accounts receivable balance will also increase. Our accounts receivable could also increase if customers delay their payments or if we grant extended payment terms to customers, both of which are more likely to occur during challenging economic times when our customers may have difficulty gaining access to sufficient credit on a timely basis.

Our inventory days on hand increased slightly from 47 at December 31, 2013, to 48 days at December 31, 2014. In the future, our inventory levels will continue to be determined by the level of purchase orders we receive and the stage at which our products are in their respective product life cycles, our ability, and the ability of our customers, to manage inventory under hubbing arrangements, and competitive situations in the marketplace. Such considerations are balanced against the risk of obsolescence or potentially excess inventory levels.

Investing Activities

Investing activities used $914 million in cash in 2014, which was primarily the result of $730 million in net purchases of marketable securities, $262 million of capital equipment purchases mostly to support our research and development efforts and upgrading our enterprise resource planning system, $14 million in net cash used in connection various acquisitions, offset in part by $92 million primarily from the net proceeds from the sale of certain assets in the QLogic Transaction.

Investing activities used $996 million in cash in 2013, which was primarily the result of $611 million in net purchases of marketable securities, $228 million of capital equipment purchases mostly to support our research and development efforts, $142 million in net cash used in connection with the Renesas Transaction, and $15 million of purchases of strategic investments.

Investing activities used $4.80 billion in cash in 2012, which was primarily the result of $3.58 billion in net cash paid for our acquisitions, primarily NetLogic and BroadLight, $244 million of capital equipment purchases mostly to support our research and development efforts, and $997 million in net purchases of marketable securities, offset in part by $27 million of proceeds from the sale of strategic investments.

Financing Activities

Our financing activities used $123 million in cash in 2014, which was primarily the result of $522 million used to repurchase shares of our Class A common stock, the repayment of long-term debt of $400 million, dividends paid of $283 million, and $127 million in minimum tax withholding paid on behalf of employees for shares issued pursuant to restricted stock units, offset in part by $617 million in proceeds received from issuances of common stock upon the exercise of stock options and purchases under our employee stock purchase plan, and $592 million in proceeds from the issuance of long-term debt.

Our financing activities used $749 million in cash in 2013, which was primarily the result of $597 million used to repurchase shares of our Class A common stock, the repayment of long-term debt of $300 million, dividends paid of $254 million, and $130 million in minimum tax withholding paid on behalf of employees for shares issued pursuant to restricted stock units, offset in part by $532 million in proceeds received from issuances of common stock upon the exercise of stock options and pursuant to our employee stock purchase plan.

Our financing activities provided $336 million in cash in 2012, which was primarily the result of $492 million in proceeds from the issuance of long-term debt, and $311 million in proceeds received from issuances of common stock upon the exercise of stock options and pursuant to our employee stock purchase plan, offset in part dividends paid of $224 million, $153 million in minimum tax withholding paid on behalf of employees for shares issued pursuant to restricted stock units, $57 million in payments of contingent consideration and debt assumed from certain acquisitions, and $33 million used to repurchase shares of our Class A common stock.

The timing and number of stock option exercises and employee stock purchases, and the amount of cash proceeds we receive from these equity awards are not within our control. As it is now our practice to issue restricted stock units, or RSUs, instead of stock options we will likely not generate as much cash from the exercise of stock options as we have in the past. Unlike the exercise of stock options, the issuance of shares upon vesting of RSUs does not result in any cash proceeds to Broadcom and in fact requires the use of cash, as we currently allow employees to have a portion of the shares issued upon vesting of RSUs withheld to satisfy minimum statutory withholding taxes. This withholding procedure requires that we pay cash to the appropriate tax authorities on each participating employee's behalf.

Short and Long-Term Financing Arrangements

At December 31, 2014, we had the following resources available to obtain short-term or long-term financings if we need additional liquidity:

Registration Statement

We have a Form S-4 acquisition shelf registration statement on file with the SEC. The registration statement on Form S-4 enables us to issue up to 30 million shares of our Class A common stock in one or more acquisition transactions. These transactions may include the acquisition of assets, businesses or securities by any form of business combination. To date no securities have been issued pursuant to the S-4 registration statement, which does not have an expiration date mandated by SEC rules.

Senior Notes

The following table summarizes details of our senior unsecured notes, or Notes:

Date Issued	Maturity Date	Interest Rate	Effective Yield	Issuance Price	December 31, 2014	December 31, 2013	$ Change
					(In millions)		
November 2010	November 2015	2.375%	2.494%	99.444%	$ —	$ 400	$ (400)
November 2011	November 2018	2.700	2.762	99.609	500	500	—
August 2012	August 2022	2.500	2.585	99.255	500	500	—
July 2014	August 2024	3.500	3.546	99.615	350	—	350
July 2014	August 2034	4.500	4.546	99.400	250	—	250
					$ 1,600	$ 1,400	$ 200
	Unaccreted discount				(7)	(6)	(1)
	Long-term debt				$ 1,593	$ 1,394	$ 199

Proceeds from the 2024 and 2034 Notes are being utilized for general corporate purposes and a portion was also used to redeem the 2015 Notes. Proceeds from the issuance of the 2022 Notes are being utilized for general corporate purposes, which included the repayment of our 1.500% senior notes that were due in November 2013. Proceeds from the issuance of the 2018 Notes were utilized to help fund the acquisition of NetLogic and proceeds from the 2015 Notes were utilized for general corporate purposes.

The outstanding Notes described above contain a number of restrictive covenants, including, but not limited to, restrictions on our ability to grant liens on assets; enter into sale and lease-back transactions; or merge, consolidate or sell assets. Failure to comply with these covenants, or any other event of default, could result in acceleration of the principal amount and accrued and unpaid interest on the Notes. We were in compliance with all senior unsecured notes debt covenants as of December 31, 2014.

Credit Facility

In November 2010 we entered into a credit facility, with certain institutional lenders that provides for unsecured revolving facility loans, swing line loans and letters of credit in an aggregate amount of up to $500 million. We amended this credit facility in July 2014 primarily to extend the maturity date to July 31, 2019, at which time all outstanding revolving facility loans (if any) and accrued and unpaid interest must be repaid. The July 2014 amendment to the credit facility also removed the consolidated interest coverage ratio financial covenant, removed the negative covenants restricting investments and restricted payments, and removed the highest pricing in the pricing grid for determining the interest rate margins applicable to loans made under the credit facility and the commitment fee paid on the amount of the unused commitments. We have not drawn on our credit facility to date.

Loans made under the credit facility (other than swing line loans) bear interest, at our option, at either a Base Rate plus a margin that varies from 0.000% to 0.250% or a Eurodollar Rate plus a margin that varies from 0.625% to 1.250%. Swing line loans under the credit facility bear interest applicable to Base Rate loans. We are also required to pay a commitment fee on any unused commitments at a rate that varies from 0.060% to 0.150% per annum.

The credit facility contains customary representations, warranties and covenants. Financial covenants require us to maintain a consolidated leverage ratio of no more than 3.25:1.00. We were in compliance with all credit facility debt covenants as of December 31, 2014.

Other Notes and Borrowings

We had no other significant notes or borrowings as ofDecember 31, 2014.

Commitments and Other Contractual Obligations

The following table presents details of our commitments and other contractual obligations, which are currently estimated to be paid in2015 and thereafter:

	Payment Obligations by Year						
	2015	2016	2017	2018	2019	Thereafter	Total
	(In millions)						
Operating leases	$ 197	$ 142	$ 95	$ 56	$ 24	$ 23	$ 537
Inventory and related purchase obligations	725	—	—	—	—	—	725
Other obligations	155	36	4	—	—	—	195
Long-term debt and related interest	50	49	49	550	36	1,368	2,102
	$ 1,127	$ 227	$ 148	$ 606	$ 60	$ 1,391	$ 3,559

We lease our facilities and certain engineering design tools and information systems equipment under operating lease agreements. Our leased facilities comprise an aggregate of 4.3 million square feet. Our principal facilities in Irvine have lease terms that expire at various dates through 2018 with an aggregate remaining rent of $94 million (included in the table above).

Inventory and related purchase obligations represent purchase commitments for silicon wafers and assembly and test services. We depend upon third party subcontractors to manufacture our silicon wafers and provide assembly and test services. Due to lengthy subcontractor lead times, we must order these materials and services from subcontractors well in advance. We expect to receive and pay for these materials and services within the ensuing six months. Our subcontractor relationships typically allow for the cancellation of outstanding purchase orders but require payment of all expenses incurred through the date of cancellation.

Other obligations represent purchase commitments for lab test equipment, computer hardware, information systems infrastructure, mask and prototyping costs, intellectual property licensing arrangements and other commitments made in the ordinary course of business.

For purposes of the table above, obligations for the purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on current manufacturing needs and are typically fulfilled by our vendors within a relatively short time horizon. We have additional purchase orders (not included in the table above) that represent authorizations to purchase rather than binding agreements. We do not have significant agreements for the purchase of inventories or other goods specifying minimum quantities or set prices that exceed our expected requirements.

Unrecognized tax benefits were $364 million, of which $62 million would result in potential cash payment of taxes and$302 million would result in a reduction in certain net operating loss and tax credit carryforwards. We are not including any amount related to uncertain tax positions in the table presented above because of the difficulty in making reasonably reliable estimates of the timing of settlements with the respective taxing authorities. In addition to the unrecognized tax benefits, we have also recorded a liability for potential tax penalties and interest of $27 million and $6 million, respectively, at December 31, 2014.

In November 2014 we signed an agreement to purchase land for the construction of a new corporate campus, totaling up to 2 million square feet, to meet the requirements projected in our long-term business plan. The cost of the land is $128 million and is not included in the table above as the purchase is currently anticipated to close in three months ending March 31, 2015, subject to closing conditions. Assuming the completion of the purchase of land, the construction of the new facility and the associated relocation is currently expected to cost an additional $650 million through 2018.   We currently expect to begin occupying the new facilities in 2017.

Prospective Capital Needs

We believe that our existing cash, cash equivalents and marketable securities, together with cash generated from operations and from the issuance of common stock through our employee stock option and purchase plans, will be sufficient to cover our working capital needs, capital expenditures, investment requirements, commitments, repurchases of our Class A common stock and quarterly dividends for at least the next 12 months. This includes our pending acquisition of land and related construction of our new corporate campus. However, it is possible that we may choose to raise additional funds or draw on our existing credit facility to finance our activities beyond the next 12 months or to consummate acquisitions of other businesses, assets, products or technologies. If needed, we may be able to raise such funds by selling equity or debt securities to the public or to selected investors or by borrowing money from financial institutions. We could also reduce certain expenditures, such as repurchases of our Class A common stock and payments of our quarterly dividends.

We earn a significant amount of our operating income outside the U.S., which is deemed to be permanently reinvested in foreign jurisdictions. For at least the next 12 months, we have sufficient cash in the U.S. and expect domestic cash flow to sustain our operating activities and cash commitments for investing and financing activities, such as acquisitions, quarterly dividends, share buy-backs and repayment of debt. In addition, we expect existing foreign cash, cash equivalents, short-term investments, and cash flows from operations to continue to be sufficient to fund our foreign operating activities and cash commitments for investing activities, such as material capital expenditures, for at least the next 12 months. As of December 31, 2014 we had approximately $3.13 billion of cash, cash equivalents, and marketable securities held by our foreign subsidiaries. We do not expect that potential taxes on a repatriation of our foreign earnings, which are permanently reinvested, would have a material effect on our overall liquidity because such potential taxes would be substantially offset by our domestic net operating loss and tax credit carryforwards. Nevertheless, some of a repatriation would be subject to US federal income taxes, less foreign tax credits. In addition, a repatriation of our foreign earnings could result in higher and more volatile income tax rates and dilution of our earnings.

In addition, even though we may not need additional funds, we may still elect to sell additional equity or debt securities or utilize or increase our existing credit facilities for other reasons. However, we may not be able to obtain additional funds on a timely basis at acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of our Class A common stock.

Although we believe that we have sufficient capital to fund our activities for at least the next 12 months, our future capital requirements may vary materially from those now planned. We anticipate that the amount of capital we will need in the future will depend on many factors, including:

- general economic and specific conditions in the markets we address, including the continuing volatility in the technology sector and semiconductor industry, and trends in the wired and wireless communications markets in various geographic regions, including seasonality in sales of consumer products into which our products are incorporated;
- the overall levels of sales of our semiconductor products, licensing revenue, and gross margins;
- our business, product, capital expenditure and research and development plans, and product and technology roadmaps;
- the market acceptance of our products;
- acquisitions of businesses, assets, products or technologies;
- the unavailability of credit and financing, which may lead certain of our customers to reduce their levels of purchases or to seek credit or other accommodations from us;
- litigation expenses, settlements and judgments, customer indemnification claims and other types of litigation risks;
- payment of cash dividends;
- required levels of research and development and other operating costs;
- volume price discounts and customer rebates;
- the levels of inventory and accounts receivable that we maintain;
- licensing royalties payable by us, including licensing fees paid to NPEs;
- capital improvements for new and existing facilities;
- changes in our compensation policies;
- the issuance of restricted stock units and the related cash payments we make for withholding taxes due from employees;
- repurchases of our Class A common stock;
- changes in tax laws;
- technological upgrades and improvements in our infrastructure technology systems;
- our competitors' responses to our products and our anticipation of and responses to their products;
- our relationships with suppliers and customers;
- the availability and cost of sufficient foundry, assembly and test capacity and packaging materials; and
- the level of exercises of stock options and stock purchases under our employee stock purchase plan.

In addition, we may require additional capital to accommodate planned future long-term growth, hiring, infrastructure and facility needs.

Off-Balance Sheet Arrangements

At December 31, 2014, we had no material off-balance sheet arrangements, other than our facility operating leases.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We manage our total portfolio to encompass a diversified pool of investment-grade securities to preserve principal and maintain liquidity. The average credit rating of our marketable securities portfolio by major credit rating agencies was Aa3/AA-. Investments in both fixed rate and floating rate instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to an increase in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income, net, may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded fixed income investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. However, because any fixed income securities we hold are classified as available-for-sale, no gains or losses are realized in the income statement due to changes in interest rates unless such securities are sold prior to maturity or unless declines in value are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive loss, a component of shareholders' equity, net of tax.

To assess the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on investment positions as of December 31, 2014, a 100 basis point increase in interest rates across all maturities would result in a $36 million incremental decline in the fair market value of the portfolio. Such losses would only be realized if we sold the investments prior to maturity.

Actual future gains and losses associated with our investments may differ from the sensitivity analysis performed as of December 31, 2014, due to the inherent limitations associated with predicting the changes in the timing and level of interest rates and our actual exposures and positions.

A hypothetical increase of 100 basis points in short-term interest rates would not have a material impact on our revolving credit facility, which bears a floating interest rate. This sensitivity analysis assumes all other variables will remain constant in future periods.

Our Notes bear fixed interest rates, and therefore, would not be subject to interest rate risk.

Exchange Rate Risk

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Currently, sales to customers and arrangements with third-party manufacturers provide for pricing and payment in United States dollars and, therefore, are not subject to exchange rate fluctuations. Increases in the value of the United States dollar relative to other currencies could make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States dollar relative to other currencies could result in our suppliers raising their prices to continue doing business with us. Our direct exposure to foreign exchange rate fluctuations is limited primarily to employee costs for employees based outside of the U.S. Fluctuations in currency exchange rates could affect our business in the future.

Item 8. ***Financial Statement and Supplementary Data***

The financial statements and supplementary data required by this item are included in Part IV, Item 15 of this Report.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management