

ADVANCED MICRO DEVICES INC

Form 10-Q

May 09, 2012

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-07882

ADVANCED MICRO DEVICES, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

94-1692300
(I.R.S. Employer
Identification No.)

One AMD Place

Sunnyvale, California
(Address of principal executive offices)

94088
(Zip Code)

Registrant's telephone number, including area code: (408) 749-4000

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of the registrant's common stock, \$0.01 par value, as of May 2, 2012: 701,348,804

Table of Contents

INDEX

	Page No.
<u>Part I Financial Information</u>	
Item 1	
<u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Operations – Quarters Ended March 31, 2012 and April 2, 2011</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Quarters Ended March 31, 2012 and April 2, 2011</u>	3
<u>Condensed Consolidated Balance Sheets – March 31, 2012 and December 31, 2011</u>	4
<u>Condensed Consolidated Statements of Cash Flows – Quarters Ended March 31, 2012 and April 2, 2011</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2	21
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3	34
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
Item 4	34
<u>Controls and Procedures</u>	
<u>Part II Other Information</u>	
Item 1A	35
<u>Risk Factors</u>	
Item 6	47
<u>Exhibits</u>	
<u>Signatures</u>	48

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Advanced Micro Devices, Inc.****Condensed Consolidated Statements of Operations****(Unaudited)**

	Quarter Ended	
	March 31, 2012	April 2, 2011
	(In millions, except per share amounts)	
Net revenue	\$ 1,585	\$ 1,613
Cost of sales	1,558	922
Gross margin	27	691
Research and development	368	367
Marketing, general and administrative	230	261
Amortization of acquired intangible assets	1	9
Restructuring charges, net	8	
Operating income (loss)	(580)	54
Interest income	2	3
Interest expense	(43)	(48)
Other income (loss), net	(1)	11
Income (loss) before dilution gain in investee and income taxes	(622)	20
Provision (benefit) for income taxes	(32)	2
Dilution gain in investee, net		492
Net income (loss)	\$ (590)	\$ 510
Net income (loss) per share		
Basic	\$ (0.80)	\$ 0.71
Diluted	\$ (0.80)	\$ 0.68
Shares used in per share calculation:		
Basic	734	720
Diluted	734	764

Condensed Consolidated Statements of Comprehensive Income (Loss)**(Unaudited)**

	Quarter Ended	
	March 31, 2012	April 2, 2011
	(In millions)	
Comprehensive income (loss)	\$ (593)	\$ 511

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Advanced Micro Devices, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2012	December 31, 2011*
	(In millions, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,193	\$ 869
Marketable securities	351	896
Total cash and cash equivalents and marketable securities	1,544	1,765
Accounts receivable, net	962	919
Inventories, net	585	476
Prepaid expenses and other current assets	104	69
Total current assets	3,195	3,229
Long-term marketable securities	169	149
Property, plant and equipment, net	715	726
Investment in GLOBALFOUNDRIES		278
Acquisition related intangible assets, net	109	8
Goodwill	553	323
Other assets	247	241
Total assets	\$ 4,988	\$ 4,954
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 527	\$ 363
Payable to GLOBALFOUNDRIES	560	177
Accrued liabilities	556	550
Deferred income on shipments to distributors	137	123
Current portion of long-term debt and capital lease obligations	490	489
Other current liabilities	77	72
Total current liabilities	2,347	1,774
Long-term debt and capital lease obligations, less current portion	1,529	1,527
Other long-term liabilities	60	63
Commitments and contingencies (See Note 11)		
Stockholders equity:		
Capital stock:		
Common stock, par value \$0.01; 1,500 shares authorized on March 31, 2012 and December 31, 2011; shares issued: 709 on March 31, 2012 and 706 shares on December 31, 2011; shares outstanding: 700 on March 31, 2012 and 698 shares on December 31, 2011	7	7
Additional paid-in capital	6,722	6,672
Treasury stock, at cost (9 shares on March 31, 2012 and December 31, 2011)	(107)	(107)
Accumulated deficit	(5,567)	(4,977)
Accumulated other comprehensive loss	(3)	(5)
Total stockholders equity	1,052	1,590

Total liabilities and stockholders equity	\$ 4,988	\$ 4,954
--	----------	----------

* Amounts as of December 31, 2011 were derived from the December 31, 2011 audited financial statements.
See accompanying notes to condensed consolidated financial statements.

Table of Contents**Advanced Micro Devices, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

	Quarter Ended	
	March 31,	April 2,
	2012	2011
	(In millions)	
Cash flows from operating activities:		
Net income (loss)	\$ (590)	\$ 510
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Non-cash portion of the limited waiver of exclusivity from GLOBALFOUNDRIES	278	
Dilution gain in investee		(492)
Depreciation and amortization	63	88
Benefit for deferred income taxes	(36)	(1)
Compensation recognized under employee stock plans	21	27
Non-cash interest expense	6	5
Other	(3)	11
Changes in operating assets and liabilities:		
Accounts receivable	(40)	(189)
Inventories	(106)	(16)
Prepaid expenses and other current assets	(41)	(11)
Other assets	(16)	10
Payable to GLOBALFOUNDRIES	384	(78)
Accounts payable, accrued liabilities and other	187	(32)
Net cash provided by (used in) operating activities	107	(168)
Cash flows from investing activities:		
Acquisition of SeaMicro, Inc., net of cash acquired	(281)	
Purchases of property, plant and equipment	(40)	(38)
Purchases of available-for-sale securities	(95)	(393)
Proceeds from sales and maturities of available-for-sale securities	620	434
Other	(4)	(17)
Net cash provided by (used in) investing activities	200	(14)
Cash flows from financing activities:		
Proceeds from borrowings, net of issuance cost		165
Net proceeds from foreign grants	9	7
Proceeds from issuance of common stock	9	9
Repayments of debt and capital lease obligations	(1)	(1)
Other		(2)
Net cash provided by financing activities	17	178
Net increase (decrease) in cash and cash equivalents	324	(4)
Cash and cash equivalents at beginning of period	869	606
Cash and cash equivalents at end of period	\$ 1,193	\$ 602

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Advanced Micro Devices, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements of Advanced Micro Devices, Inc. and its subsidiaries (the Company or AMD) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. The results of operations for the quarter ended March 31, 2012 shown in this report are not necessarily indicative of results to be expected for the full year ending December 29, 2012. In the opinion of the Company's management, the information contained herein reflects all adjustments necessary for a fair presentation of the Company's results of operations, financial position and cash flows. All such adjustments are of a normal, recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The Company uses a 52 or 53 week fiscal year ending on the last Saturday in December. The quarters ended March 31, 2012 and April 2, 2011 consisted of 13 and 14 weeks, respectively.

Principles of Consolidation. The condensed consolidated financial statements include the Company's accounts and those of its wholly-owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated.

NOTE 2. GLOBALFOUNDRIES

Wafer Supply Agreement. The Wafer Supply Agreement (WSA) governs the terms by which the Company purchases products manufactured by GLOBALFOUNDRIES Inc. (GF). On March 4, 2012, the Company entered into a second amendment to its WSA with GF. The primary effect of this second amendment was to modify certain pricing and other terms of the WSA applicable to wafers for the Company's microprocessor and accelerated processing unit (APU) products to be delivered by GF to the Company during 2012. Pursuant to the amendment, GF has committed to provide the Company with, and the Company has committed to purchase, a fixed number of production wafers in 2012. The Company will pay GF fixed prices for production wafers delivered in 2012. The Company also established a framework for wafer pricing in 2013.

The second amendment also grants the Company certain rights to contract with another wafer foundry supplier with respect to specified products for a specified period of time. In consideration for these rights, the Company agreed to pay GF \$425 million and transfer to GF all of the capital stock of GF that it owned (1,063,798 GF Class A Preferred Shares). As a result of the Company receiving these rights in the first quarter of 2012, the Company recorded a charge related to the limited waiver of exclusivity from GF of \$703 million consisting of the above-mentioned \$425 million cash payment and a \$278 million non-cash charge equal to the carrying and fair value of its transferred capital stock in GF. Pursuant to the second amendment, \$150 million of the \$425 million was paid on March 5, 2012, \$50 million will be paid by July 2, 2012 and \$50 million will be paid by October 2, 2012 with the remaining \$175 million to be paid by December 31, 2012. In addition, as security for the final two payments, the Company issued a \$225 million non-interest bearing promissory note to GF.

As a result of the transfer of the Company's shares of GF capital stock, the Company no longer owns any GF capital stock. Also, the Company is no longer entitled to designate a director on GF's board, and its designated director resigned effective as of the date of the second amendment.

The Company currently estimates that it will pay GF approximately \$1.5 billion in 2012 for wafer purchases under the WSA, as amended. In addition, the Company estimates that additional purchase obligations in connection with research and development related to GF wafer production will be approximately \$74 million in 2012. The Company is not able to meaningfully quantify or estimate its purchase obligations to GF beyond 2012, but it expects that its future purchases from GF will continue to be material.

GF is a related party of the Company. The Company's total purchases from GF related to wafer manufacturing and research and development activities during the first quarter of 2012 amounted to approximately \$420 million.

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 3. Acquisition**

On March 23, 2012, AMD acquired SeaMicro, Inc. (SeaMicro), a privately held company that produces energy-efficient, high-bandwidth microservers. Through the acquisition of SeaMicro, AMD plans to accelerate its strategy to deliver disruptive server technology to its original equipment manufacturers (OEM) customers serving Cloud-centric data centers. The acquired company is included in the Computing Solutions Group (CSG) segment.

The total consideration paid to acquire SeaMicro was \$312 million, not including cash acquired of \$19 million. In addition, AMD incurred \$6 million in transaction costs, which were included in marketing, general and administrative expenses of AMD's condensed consolidated statement of operations. AMD paid \$293 million in cash to the holders of all outstanding shares of SeaMicro capital stock. As part of the acquisition, AMD assumed all outstanding vested and unvested SeaMicro stock options and unvested restricted stock held by continuing SeaMicro employees as of March 23, 2012. The assumed options were exchanged for approximately 1,652,000 million vested and 4,792,000 million unvested AMD stock options. The assumed restricted stock was exchanged for approximately 322,000 AMD restricted shares. The stock options and restricted shares continue to have the same terms and conditions as under SeaMicro's option plan. The fair value attributable to pre-combination employee service as of the March 23, 2012 closing for the stock options and restricted shares assumed, which was part of the consideration paid to acquire SeaMicro, was \$19 million. The fair value for the stock options assumed was determined using a binomial option-pricing valuation model.

The total cash consideration of \$293 million included \$29 million deposited into an escrow account as security for any breaches by SeaMicro of representations, warranties and covenants under the acquisition agreement. The escrow fund, less amounts of any valid indemnification claims, if any, will be disbursed by the escrow agent to the former stockholders of SeaMicro in March 2013.

The acquisition has been accounted for using the purchase method of accounting in accordance with Accounting Standard Codification (ASC) 805, Business Combinations. Accordingly, the total consideration was assigned to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Fair values were determined by AMD's management based on information available at the date of acquisition. The results of operations of SeaMicro were included in AMD's consolidated financial statements from the date of acquisition.

The assets acquired and liabilities assumed based on the estimated fair value of SeaMicro were as follows:

	March 23, 2012 (In millions)	Estimated useful lives
Purchase consideration		
Cash	\$ 293	
Vested portion of the replacement grants	19	
Total purchase consideration	\$ 312	
Tangible assets acquired	\$ 24	
Identified intangible assets acquired		
Developed technology	86	8 years
In-process research and development	11	
Customer relationships	4	4 years
Trade name	1	4 years

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

Total assets acquired	126
Liabilities assumed	8
Deferred tax liabilities	36
Total liabilities assumed	44
Goodwill	\$ 230

The developed technology of SeaMicro relates to SeaMicro's SM10000 server offering, which is built around a parallel array of independent ultra-low power processors, and it serves to integrate computation, switching, server management, and load balancing. In addition to developed technology, SeaMicro had in-process research and development projects, which were incomplete at the time of the acquisition. The value of developed technology and in-process research and development was determined based on the present value

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

of estimated expected cash flows attributable to the technology. The customer relationships related to the ability to sell existing, in-process and future versions of the technology to SeaMicro's existing customers and were valued based on an incremental cash flows generated from existing customer base. The trade name related to the SeaMicro brand names. The goodwill is primarily attributed to premiums paid for synergies between AMD and SeaMicro and the assembled workforce, and is not deductible for tax purposes. The acquired developed technology, customer relationships and trade name are amortized on a straight-line basis over their estimated useful lives. The acquired in-process research and development and goodwill associated with the acquisition are categorized as indefinite-lived intangible assets and subject to impairment review. For the capitalized acquired in-process research and development costs, they will remain capitalized until such time as the projects are complete and the amortization will start or they will be written off when it is probable the projects will not be completed.

The unaudited pro forma financial information in the table below summarizes the combined results of operations of AMD and SeaMicro during the quarters ended March 31, 2012 and April 2, 2011 as though the acquisition took place as of the beginning of each reported quarter. The pro forma financial information also includes certain adjustments such as amortization expense from acquired intangible assets, inventory adjustment to fair value, share-based compensation expense related to unvested stock options and restricted stock assumed, acquisition-related costs and the income tax impact of the pro forma adjustments. The pro forma financial information presented below does not include any anticipated synergies or other expected benefits of the acquisition. It is presented for informational purposes only and not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the periods presented.

	Quarters Ended	
	March 31, 2012	April 2, 2011
	(In millions, except per share amounts)	
Net revenue	\$ 1,587	\$ 1,614
Net income (loss)	\$ (639)	\$ 534
Diluted earnings (loss) per share	\$ (0.87)	\$ 0.71

NOTE 4. Goodwill

The following table reflects the carrying amounts of goodwill by segment including the impact of the acquisition of SeaMicro:

	Computing Solutions	Graphics (In millions)	Total
Balance as of December 31, 2011	\$	\$ 323	\$ 323
Addition due to SeaMicro acquisition	230		230
Balance as of March 31, 2012	\$ 230	\$ 323	\$ 553

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 5. Supplemental Balance Sheet Information***Accounts Receivable*

	March 31, 2012	December 31, 2011
	(In millions)	
Accounts receivable	\$ 963	\$ 921
Allowance for doubtful accounts	(1)	(2)
Total accounts receivable, net	\$ 962	\$ 919

Inventories

	March 31, 2012	December 31, 2011
	(In millions)	
Raw materials	\$ 26	\$ 25
Work in process	411	295
Finished goods	148	156
Total inventories, net	\$ 585	\$ 476

Property, Plant and Equipment

	March 31, 2012	December 31, 2011
	(In millions)	
Land and land improvements	\$ 31	\$ 31
Buildings and leasehold improvements	588	544
Equipment	1,510	1,507
Construction in progress	70	114
	2,199	2,196
Accumulated depreciation and amortization	(1,484)	(1,470)
Total property, plant and equipment, net	\$ 715	\$ 726

Accrued Liabilities

	March 31, 2012	December 31, 2011
	(In millions)	
Accrued compensation and benefits	\$ 171	\$ 161
Marketing programs and advertising expenses	210	223
Software technology and licenses payable	19	20
Other	156	146
Total accrued liabilities	\$ 556	\$ 550

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 6. Net Income (Loss) Per Share**

Basic net income (loss) per share is computed based on the weighted average number of shares outstanding and shares issuable upon exercise of warrants issued by the Company to West Coast Hitech L.P., in connection with the initial GF transaction in 2009. The warrants became exercisable on July 24, 2009.

Diluted net income per share is computed based on the weighted average number of shares outstanding plus any potentially dilutive shares outstanding. Potentially dilutive shares include stock options, restricted stock units and shares issuable upon the conversion of convertible debt.

The following table sets forth the components of basic and diluted income (loss) per share:

	Quarter Ended	
	March 31, 2012	April 2, 2011
(In millions, except per share amounts)		
Numerator Net income (loss):		
Numerator for basic income (loss) per share	\$ (590)	\$ 510
Effect of assumed conversion of 5.75% convertible senior notes:		
Interest expense and amortization of financing cost		7
Numerator for basic and diluted net income (loss) per share	\$ (590)	\$ 517
Denominator Weighted average shares		
Denominator for basic and diluted income (loss) per share	734	720
Effect of potentially dilutive shares:		
Employee stock options and restricted stock units		20
5.75% convertible senior notes		24
Denominator for basic and diluted income (loss) per share	734	764
Net income per share:		
Basic	\$ (0.80)	\$ 0.71
Diluted	\$ (0.80)	\$ 0.68

Potential shares (i) from outstanding stock options and restricted stock units totaling approximately 32 million and (ii) issuable under the Company's 5.75% Notes totaling 24 million were not included in the net loss per share calculation for the first quarter of 2012 because their inclusion would have been anti-dilutive.

Potential shares from outstanding stock options and restricted stock totaling approximately 15 million were not included in the net income per share calculation for the first quarter of 2011 because the inclusion would have been anti-dilutive.

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 7. Financial Instruments**

Available-for-sale securities held by the Company as of March 31, 2012 and December 31, 2011 were as follows:

	Quarter Ended	
	March 31, 2012	December 31, 2011
	(In millions)	
Fair Value		
Classified as cash equivalents:		
Money market funds	\$ 917	\$ 738
Commercial paper	125	1
Total classified as cash equivalents	\$ 1,042	\$ 739
Classified as current marketable securities:		
Commercial paper	\$ 249	\$ 698
Time deposits	70	160
Auction rate securities	32	38
Total classified as current marketable securities	\$ 351	\$ 896
Classified as long-term marketable securities:		
Money market funds	\$ 1	\$ 9
Corporate bonds	168	140
Total classified as long-term marketable securities	\$ 169	\$ 149
Classified as other assets:		
Money market funds	\$ 10	\$ 10
Total classified as other assets	\$ 10	\$ 10

Table of Contents

Advanced Micro Devices, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

The amortized cost of available-for-sale securities approximates the fair value for all periods presented.

As of each of March 31, 2012 and December 31, 2011, the Company had approximately \$10 million, of available-for-sale investments in money market funds used as collateral for leased buildings, which was included in other assets on the Company's condensed consolidated balance sheets. The Company is restricted from accessing these deposits.

The Company realized no gain or loss on sales of available-for-sale securities of approximately \$6 million during first quarter of 2012. The carrying value of the Company's remaining auction rate securities (ARS) holdings as of March 31, 2012 was \$32 million (par value \$37 million). The Company has the intent and believes it has the ability to sell these ARS within the next 12 months. The Company realized net gains of \$1 million on sales of available-for-sale securities of approximately \$8 million during first quarter of 2011.

The Company intends to hold its long-term marketable securities for greater than one year and does not intend to use in current operations.

All contractual maturities of the Company's available-for-sale marketable debt securities as of March 31, 2012 were within one year, except those for ARS and certain long-term marketable securities. The Company's ARS have stated maturities ranging from January 2030 to December 2050. The Company's long-term marketable securities include corporate bonds and money market funds. The corporate bonds have maximum stated maturities of 2 years, and the Company intends to invest the money market funds into corporate bonds with maturities of greater than a year. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****Fair Value Measurements**

Financial instruments measured and recorded at fair value on a recurring basis are summarized below:

	Total	Fair value measurement at reporting dates using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In millions)				
March 31, 2012				
Assets				
Classified as cash equivalents:				
Money market funds	\$ 917	\$ 917	\$	\$
Commercial paper	125		125	
Total classified as cash equivalents	\$ 1,042	\$ 917	\$ 125	\$
Classified as current marketable securities:				
Commercial paper	\$ 249	\$	\$ 249	\$
Time deposits	70		70	
Auction rate securities	32			32
Total classified as current marketable securities	\$ 351	\$	\$ 319	\$ 32
Classified as long-term marketable securities:				
Money market funds	\$ 1	\$ 1	\$	\$
Corporate bonds	168		168	
Total classified as long-term marketable securities	\$ 169	\$ 1	\$ 168	\$
Classified as other assets:				
Money market funds	\$ 10	\$ 10	\$	\$
Total classified as other assets	\$ 10	\$ 10	\$	\$
Classified as prepaid expenses and other current assets:				
Foreign currency derivative contracts	\$ 1	\$	\$ 1	\$
Total classified as prepaid expenses and other current assets	\$ 1	\$	\$ 1	\$

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

Total assets measured at fair value	\$ 1,573	\$ 928	\$ 613	\$ 32
--	-----------------	---------------	---------------	--------------

December 31, 2011

Assets

Classified as cash equivalents:

Money market funds	\$ 738	\$ 738	\$	\$
Commercial paper	1		1	

Total classified as cash equivalents	\$ 739	\$ 738	\$ 1	\$
--------------------------------------	--------	--------	------	----

Classified as current marketable securities:

Commercial paper	\$ 698	\$	\$ 698	\$
Time deposits	160		160	
Auction rate securities	38			38

Total classified as current marketable securities	\$ 896	\$	\$ 858	\$ 38
---	--------	----	--------	-------

Classified as long-term marketable securities:

Money market funds	\$ 9	\$ 9	\$	\$
Corporate bonds	140		140	

Total classified as long-term marketable securities	\$ 149	\$ 9	\$ 140	\$
---	--------	------	--------	----

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

Classified as other assets:								
Money market funds	\$	10	\$	10	\$		\$	
Total classified as other assets	\$	10	\$	10	\$		\$	
Total assets measured at fair value	\$	1,794	\$	757	\$	999	\$	8
Liabilities								
Classified as accrued liabilities - Foreign currency derivative contracts	\$	(2)	\$		\$	(2)	\$	
Total liabilities measured at fair value	\$	(2)	\$		\$	(2)	\$	

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

With the exception of its long-term debt, the Company carries its financial instruments at fair value. Investments in money market mutual funds, commercial paper, time deposits, marketable equity securities, corporate bonds and foreign currency derivative contracts are classified within Level 1 or Level 2. This is because such financial instruments are valued primarily using quoted market prices or alternative pricing sources and models utilizing market observable inputs, as provided to the Company by its brokers. The Company's Level 1 assets are valued using quoted prices for identical instruments in active markets. The Company's Level 2 short-term investments are valued using broker reports that utilize quoted market prices for identical or comparable instruments. Brokers gather observable inputs for all of the Company's fixed income securities from a variety of industry data providers and other third-party sources. The Company's Level 2 long-term investments are valued using broker reports that utilize a third party professional pricing service who gathers information from multiple market sources and integrates relevant credit information, observed market movements and sector news into their pricing evaluation. The Company validates, on a sample basis, the derived prices provided by the brokers by comparing their assessment of the fair values of the Level 2 long term investments against the fair values of the portfolio balances of another third-party professional's pricing services, other than that utilized by the brokers, who use a similar technique as the brokers to derive pricing as described above. The Company's foreign currency derivative contracts are classified within Level 2 because the valuation inputs are based on quoted prices and market observable data of similar instruments in active markets, such as currency spot and forward rates.

The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy.

The ARS investments are classified within Level 3 because they are valued using a discounted cash flow model. Some of the inputs to this model are unobservable in the market and are significant.

The continuing uncertainties in the credit markets have affected all of the Company's ARS investments and auctions for these securities have failed to settle on their respective settlement dates since February 2008. As a result, reliable Level 1 or Level 2 pricing is not available for these ARS. In light of these developments, the Company performs its own discounted cash flow analysis to value these ARS. As of March 31, 2012 and December 31, 2011, the Company's significant inputs and assumptions used in the discounted cash flow model to determine the fair value of its ARS include interest rate, liquidity and credit discounts and the estimated life of the ARS investments. The outcomes of these analyses indicated that the fair value of the ARS remained relatively unchanged as of March 31, 2012 when compared to the fair value as of December 31, 2011. As of March 31, 2012, these Level 3 ARS accounted for approximately 2 percent of the Company's total cash, cash equivalents and current marketable securities.

The roll-forward of the financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Quarter Ended	
	March 31, 2012 Auction Rate Securities	April 2, 2011 Auction Rate Securities
	(In millions)	
Beginning balance	\$ 38	\$ 57
Redemption at par	(6)	
Ending balance	\$ 32	\$ 57

The Company's significant inputs and assumptions used in the discounted cash flow model to determine the fair value of its ARS are listed below:

	Quarter Ended	
	March 31, 2012	December 31, 2011
Discount rate for periodic interest payments	1.05%	1.13%
Discount rate for principal repayments	1.79%	1.93%
Liquidity discount	0.90%	0.90%
Credit discount	2.00%	2.00%
Estimated period (years)	17	17

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

Significant increases (decreases) in the significant inputs and assumptions above in isolation would result in a significantly lower (higher) fair value measurement. There is no interrelationship between changes in the inputs.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis. Financial instruments that are not recorded at fair value are measured at fair value on a quarterly basis for disclosure purposes. The carrying amounts and estimated fair values of financial instruments not recorded at fair value are as follows:

	March 31, 2012		December 31, 2011	
	Carrying amount	Estimated Fair Value	Carrying amount	Estimated Fair Value
	(In millions)			
Short-term debt (excluding capital leases)	\$ 485	\$ 492	\$ 485	\$ 490
Long-term debt (excluding capital leases)	\$ 1,508	\$ 1,719	\$ 1,505	\$ 1,619

The fair value of the Company's short-term and long-term debt, Level 2 financial instruments, was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's accounts receivable, accounts payable and other short-term obligations approximate their carrying value based on existing payment terms.

NOTE 8. Income Taxes

In the first quarter of 2012, the Company recorded an income tax provision benefit of \$32 million due to a tax benefit of \$36 million relating to the SeaMicro acquisition and a \$1 million tax benefit for the tax effects of items credited directly to other comprehensive income, which was offset by \$5 million of foreign taxes in profitable locations. The tax impact of the transfer of the Company's remaining shares of capital stock in GF to GF during the first quarter of 2012 was not material due to the existence of the U.S. valuation allowance.

In the first quarter of 2011, the Company recorded an income tax provision of \$2 million consisting of foreign taxes in profitable locations of \$3.5 million, partially offset by \$1.5 million of U.S. tax benefits from the monetization of U.S. tax credits. The tax impact of the non-cash gain related to the dilution of the Company's equity interest in GF during the first quarter of 2011 was not material due to the existence of the U.S. valuation allowance.

Purchase accounting for the SeaMicro acquisition required the establishment of a deferred tax liability related to the book tax basis differences of identifiable intangible assets that increased goodwill. The deferred tax liability created an additional source of U.S. future taxable income which resulted in a release of a portion of the Company's U.S. valuation allowance. This resulted in a discrete income tax provision benefit of approximately \$36 million in the first quarter of 2012.

As of March 31, 2012, substantially all of the Company's U.S. and Canadian deferred tax assets, net of deferred tax liabilities, continue to be subject to a valuation allowance. The realization of these assets is dependent on substantial future taxable income which as of March 31, 2012, in management's estimate, is not more likely than not to be achieved.

The Company's gross unrecognized tax benefits decreased by \$4 million during the first quarter of 2012 due to unrecognized tax benefits in foreign jurisdictions. The total gross unrecognized tax benefits as of March 31, 2012 were approximately \$66 million. The Company has recognized \$6 million of liabilities for unrecognized tax benefits as of March 31, 2012. The net impact on the effective tax rate for the net decrease in gross unrecognized tax benefits in the first quarter of 2012 was an increase of \$1 million. There were no material changes to penalties or interest in the first quarter of 2012.

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

During the 12 months beginning April 1, 2012, the Company believes that it is reasonably possible that it will reduce its unrecognized tax benefits by approximately \$4 million as a result of certain changes in tax status and potential audit resolutions. The Company does not believe it is reasonably possible that other unrecognized tax benefits will materially change in the next 12 months. However, the resolution and/or closure of open audits are highly uncertain.

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 9. Segment Reporting**

Management, including the Chief Operating Decision Maker, who is the Company's Chief Executive Officer, reviews and assesses operating performance using segment net revenues and operating income (loss) before interest, other income (expense), dilution gain in investee and income taxes. These performance measures include the allocation of expenses to the operating segments based on management's judgment.

The Company uses the following two reportable operating segments:

the Computing Solutions segment, which includes microprocessors, as standalone devices or as incorporated as an accelerated processing unit (APU), chipsets, embedded processors; and

the Graphics segment, which includes graphics, video and multimedia products developed for use in desktop and notebook computers, including home media PCs, professional workstations and servers as well as revenue received in connection with the development and sale of game console systems that incorporate the Company's graphics technology.

In addition to these reportable segments, the Company has an All Other category, which is not a reportable segment. This category includes certain expenses and credits that are not allocated to any of the operating segments because management does not consider these expenses and credits in evaluating the performance of the operating segments. Also included in this category are amortization of acquired intangible assets, stock-based compensation expense, restructuring charges and a charge related to the limited waiver of exclusivity from GF.

The following table provides a summary of net revenue and operating income (loss) by segment:

	Quarter Ended	
	March 31, 2012	April 2, 2011
	(In millions)	
Net revenue:		
Computing Solutions	\$ 1,203	\$ 1,200
Graphics	382	413
All Other		
Total net revenue	\$ 1,585	\$ 1,613
Operating income (loss):		
Computing Solutions	\$ 124	\$ 100
Graphics	34	19
All Other	(738)	(65)
Total operating income (loss)	\$ (580)	\$ 54

NOTE 10. Stock-Based Incentive Compensation Plans

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

The following table summarizes stock-based compensation expense related to employee stock options and restricted stock units, which is allocated in the Company's condensed consolidated statements of operations:

	Quarter Ended	
	March 31, 2012	April 2, 2011
	(In millions)	
Cost of sales	\$ 2	\$ 1
Research and development	11	12
Marketing, general, and administrative	8	14

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

	Quarter Ended	
	March 31, 2012	April 2, 2011
Stock-based compensation expense, net of tax of \$0	\$ 21	\$ 27

For all periods presented, the Company did not realize any excess tax benefit related to stock-based compensation and therefore did not record any related financing cash flows.

Stock Options

The weighted average assumptions applied in the lattice-binomial model that the Company uses to value employee stock options are as follows:

	Quarter Ended	
	March 31, 2012	April 2, 2011
Expected volatility	50.74%	51.18%
Risk-free interest rate	0.58%	1.75%
Expected dividends	%	%
Expected life (in years)	3.79	3.75

For the first quarters of 2012 and 2011, the Company granted approximately 1,193,000 and 1,134,000 employee stock options, respectively, with weighted average estimated grant date fair values of \$2.20 and \$3.34, respectively. In addition, the Company granted unvested employee stock options to purchase approximately 4,792,000 shares of the Company's common stock upon the SeaMicro acquisition closing on March 23, 2012 with weighted average estimated grant date fair values of \$6.60. The Company also issued vested AMD's employee stock options to purchase approximately 1,652,000 shares of the Company's common stock as part of the acquisition. (See Note 3).

Restricted Stock Units

For the first quarters of 2012 and 2011, the Company granted approximately 830,000 and 409,000 restricted stock units, respectively, with weighted average grant date fair values of \$6.57 and \$8.66, respectively.

Restricted Stock

The Company granted approximately 322,000 shares of restricted stock awards upon the SeaMicro acquisition closing on March 23, 2012 with weighted average estimated grant date fair values of \$4.03. (See Note 3).

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 11. Commitments and Contingencies***Warranties and Indemnities*

The Company generally warrants that its products sold to its customers will conform to the Company's approved specifications and be free from defects in material and workmanship under normal use and service for one year. Subject to certain exceptions, the Company also offers a three-year limited warranty to end users for only those microprocessor and AMD A-Series APU products that are commonly referred to as "processors in a box" and has also offered extended limited warranties to certain customers of "tray" microprocessor products and/or workstation graphics products who have written agreements with the Company and target their computer systems at the commercial and/or embedded markets.

Changes in the Company's potential liability for product warranty during the quarters ended March 31, 2012 and April 2, 2011 are as follows:

	Quarter Ended	
	March 31, 2012	April 2, 2011
	(In millions)	
Beginning balance	\$ 20	\$ 19
New warranties issued	9	9
Settlements	(8)	(8)
Changes in liability for pre-existing warranties, including expirations	(1)	(1)
Ending balance	\$ 20	\$ 19

In addition to product warranties, the Company, from time to time in its normal course of business, indemnifies other parties, with whom it enters into contractual relationships, including customers, lessors and parties to other transactions with the Company, with respect to certain matters. In these limited matters, the Company has agreed to hold certain third parties harmless against specific types of claims or losses, such as those arising from a breach of representations or covenants, third-party claims that the Company's products when used for their intended purpose(s) and under specific conditions infringe the intellectual property rights of a third party, or other specified claims made against the indemnified party. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the unique facts and circumstances that are likely to be involved in each particular claim and indemnification provision. Historically, payments made by the Company under these obligations have not been material.

Contingencies

The Company is a defendant or plaintiff in various actions that arose in the normal course of business. In the opinion of management, the aggregate liability, if any, with respect to these matters will not have a material effect on its financial condition, results of operations or cash flow.

NOTE 12. Hedging Transactions and Derivative Financial Instruments

The following table shows the amount of gain (loss) included in accumulated other comprehensive income, the amount of gain reclassified from accumulated other comprehensive income and included in earnings related to the foreign currency forward contracts designated as cash flow hedges and the amount of gain included in other income, net related to contracts not designated as hedging instruments, which was allocated in the condensed consolidated statement of operations:

Table of Contents**Advanced Micro Devices, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

	Quarter Ended	
	March 31,	April 2,
	2012	2011
	(In millions)	
Foreign Currency Forward Contracts		
Contracts designated as cash flow hedging instruments		
Other comprehensive income	\$ 2	\$ 3
Research and development		1
Marketing, general and administrative		1
Contracts not designated as hedging instruments		
Other income, net	\$ 1	\$ 8

The following table shows the fair value amounts included in prepaid expenses and other current assets should the foreign currency forward contracts be in a gain position or included in accrued liabilities should these contracts be in a loss position. These amounts were recorded in the condensed consolidated balance sheet as follows:

	March 31,	December 31,
	2012	2011
	(In millions)	
Foreign Currency Forward Contracts		
Contracts designated as cash flow hedging instruments	\$ 1	\$ (2)

For the foreign currency contracts designated as cash flow hedges, the ineffective portions of the hedging relationship, and the amounts excluded from the assessment of hedge effectiveness were immaterial.

As of March 31, 2012 and December 31, 2011, the notional value of the Company's outstanding foreign currency forward contracts was \$144 million and \$141 million, respectively. All the contracts mature within 12 months, and upon maturity the amounts recorded in accumulated other comprehensive income (loss) are expected to be reclassified into earnings. The Company hedges its exposure to the variability in future cash flows for forecasted transactions over a maximum of 12 months. As of March 31, 2012, the Company's outstanding contracts were in a \$1 million net gain position. The Company is required to post collateral should the derivative contracts be in a net loss position exceeding certain thresholds. As of March 31, 2012, the Company was not required to post any collateral.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The statements in this report include forward-looking statements. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology including believes, expects, may, will, should, seeks, intends, plans, pro forma, estimates, or anticipates or the negative of these words and phrases or other variations of these words and phrases or comparable terminology. The forward-looking statements relate to, among other things: demand for our products; the timing of new product releases and technology transitions; the growth and competitive landscape of the markets in which we participate; the nature and extent of our future payments to GLOBALFOUNDRIES Inc. (GF) under the wafer supply agreement (WSA) and the materiality of these payments; the level of international sales as compared to total sales; the availability of external financing; our ability to sell our auction rate securities within the next twelve months; that our cash, cash equivalents and marketable securities and anticipated cash flow from operations and available external financing will be sufficient to fund our operations including capital expenditures and debt repayment over the next twelve months; our gross margins; our dependence on a small number of customers; and our hedging strategy. Material factors and assumptions that were applied in making these forward-looking statements include, without limitation, the following: the expected rate of market growth and demand for our products and technologies (and the mix thereof); GF's manufacturing yields and wafer volumes; our expected market share; our expected product costs and average selling price; our overall competitive position and the competitiveness of our current and future products; our ability to introduce new products, consistent with our current roadmap; our ability to raise sufficient capital on favorable terms; our ability to make additional investment in research and development and that such opportunities will be available; our ability to realize the anticipated benefits of our fabless business model; the expected demand for computers; and the state of credit markets and macroeconomic conditions. Material factors that could cause actual results to differ materially from current expectations include, without limitation, the following: that Intel Corporation's pricing, marketing and rebating programs, product bundling, standard setting, new product introductions or other activities may negatively impact our plans; that we may be unable to develop, launch and ramp new products and technologies in the volumes that are required by the market at mature yields on a timely basis; that our third party foundries will be unable to transition our products to advanced manufacturing process technologies in a timely and effective way or to manufacture our products on a timely basis in sufficient quantities and using competitive process technologies; that we will be unable to obtain sufficient manufacturing capacity or components to meet demand for our products or will not fully utilize our projected manufacturing capacity needs at GF's manufacturing facilities in 2012 and beyond; that we may be unable to realize the anticipated benefits of our fabless business model or our relationship with GF because, among other things, the synergies expected from the transaction may not be fully realized or may take longer to realize than expected; that customers stop buying our products or materially reduce their operations or demand for our products; that we may be unable to maintain the level of investment in research and development that is required to remain competitive; that there may be unexpected variations in market growth and demand for our products and technologies in light of the product mix that we may have available at any particular time or a decline in demand; that our substantial indebtedness could adversely affect our financial position and prevent us from implementing our strategy or fulfilling our contractual obligations; that we will require additional funding and may be unable to raise sufficient capital on favorable terms, or at all; that global business and economic conditions will not improve or will worsen; that demand for computers will be lower than currently expected; and the effect of political or economic instability, domestically or internationally, on our sales or supply chain.

For a discussion of factors that could cause actual results to differ materially from the forward-looking statements, see Part II, Item 1A Risk Factors section beginning on page 35 and the Financial Condition section beginning on page 28 and other risks and uncertainties set forth below in this report or detailed in our other Securities and Exchange Commission (SEC) reports and filings. We assume no obligation to update forward-looking statements.

AMD, the AMD Arrow logo, ATI and the ATI logo, AMD Opteron, Mobility, Radeon, and combinations thereof, ATI and the ATI logo are trademarks of Advanced Micro Devices, Inc. Microsoft is a registered trademark of Microsoft Corporation in the United States and other jurisdictions. Other names are for informational purposes only and are used to identify companies and products and may be trademarks of their respective owners.

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in this report and our audited consolidated financial statements and related notes as of December 31, 2011 and December 25, 2010, and for each of the three years in the period ended December 31, 2011 as filed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Table of Contents

Overview

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

x86 microprocessors, as standalone devices or as incorporated as an accelerated processing unit (APU), for the commercial and consumer markets, embedded microprocessors for commercial, commercial client and consumer markets and chipsets for desktop and mobile devices, including mobile PCs and tablets, professional workstations and servers; and

graphics, video and multimedia products for desktop and mobile devices, including mobile PCs and tablets, home media PCs and professional workstations, servers and technology for game consoles.

In this section, we will describe the general financial condition and the results of operations of Advanced Micro Devices, Inc. and its wholly-owned subsidiaries, including a discussion of our results of operations for the first quarter of 2012 compared to the first quarter of 2011 and the fourth quarter of 2011, an analysis of changes in our financial condition and a discussion of our contractual obligations and off-balance sheet arrangements. References in this report to us, our or AMD, include these consolidated operating results.

During the first quarter of 2012, we continued to focus on executing on our engineering milestones. We began volume shipments of our next generation A-Series APU, codenamed Trinity, and our next generation E-Series APU, codenamed Brazos 2.0. With respect to our graphics products, we launched our AMD Radeon HD 7950 graphics processor, and our AMD Radeon HD 7700 series and AMD Radeon HD 7800 series graphics processors, all based on 28nm process technology and designed for enthusiast desktop gamers. We also launched our AMD Opteron 3200 series server platforms designed for dedicated web hosting and cloud customers.

We continue to focus on strengthening our competitive position in the server market. During the first quarter of 2012, we acquired SeaMicro, Inc. (SeaMicro), an energy-efficient, high-bandwidth microserver company, to accelerate our disruptive server strategy. The results of operations of SeaMicro were included in our condensed consolidated financial statements from the date of acquisition and were not material to our reported results.

Net revenue for the first quarter of 2012 was \$1.59 billion, a 2% decrease compared to first quarter of 2011 and a 6% decrease compared to the fourth quarter of 2011. During the first quarter of 2012, our operating expenses were \$598 million, which included \$6 million of expenses related to the SeaMicro acquisition. U.S. generally accepted accounting principles (GAAP) net cash provided by operating activities was \$107 million and we generated a non-GAAP adjusted free cash flow during the first quarter of 2012 of \$67 million, calculated by subtracting capital expenditures of \$40 million from the net cash provided by operating activities. See the Financial Condition Liquidity section below for more detail. Cash, cash equivalents and marketable securities, including the long term portion, as of March 31, 2012 were \$1.7 billion, a decrease of \$201 million compared to December 31, 2011. The decrease was primarily as a result of cash payments related to the SeaMicro acquisition and a charge related to the limited waiver of exclusivity from GF.

On March 4, 2012, we entered into a second amendment to the WSA with GF. The primary effect of this 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. Pursuant to the amendment, GF has committed to provide us with, and we have committed to purchase, a fixed number of production wafers per quarter in 2012. We will pay GF fixed prices for production wafers delivered in 2012. We also established a framework for wafer pricing in 2013.

The second amendment grants us certain rights to contract with another wafer foundry supplier with respect to specified products for a specified period. In consideration for these rights, we agreed to pay GF \$425 million and transferred to GF all of the capital stock of GF that we owned (1,063,798 GF Class A Preferred Shares). For these rights, we recorded a charge related to the limited waiver of exclusivity from GF of \$703 million consisting of the above-mentioned \$425 million cash payment and a \$278 million non-cash charge equal to the fair value of our transferred capital stock in GF. Pursuant to the second amendment, \$150 million of the \$425 million was paid on March 5, 2012, \$50 million will be paid by July 2, 2012 and \$50 million will be paid by October 2, 2012 with the remaining \$175 million to be paid by December 31, 2012. In addition, as security for the final two payments, we issued a \$225 million non-interest bearing promissory note to GF.

Critical Accounting Estimates

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts in our condensed consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our revenue, inventories, asset impairments, long-lived assets including acquired intangible assets, and income taxes. We base our estimates on historical experience and on various other assumptions that we

Table of Contents

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.

Management believes there have been no significant changes during the quarter ended March 31, 2012, to the items that we disclosed as our critical accounting estimates in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2011.

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), dilution gain in investee and income taxes. These performance measures include the allocation of expenses to the operating segments based on management's judgment.

We use the following two reportable operating segments:

the Computing Solutions segment, which includes microprocessors, as standalone devices or as incorporated as an APU, chipsets, embedded processors; and

the Graphics segment, which includes graphics, video and multimedia products developed for use in desktop and notebook computers, including home media PCs, professional workstations and servers as well as revenue received in connection with the development and sale of game console systems that incorporate the Company's graphics technology.

In addition to these reportable segments, we have an All Other category, which is not a reportable segment. This category includes certain expenses and credits that were not allocated to any of the operating segments because management does not consider these expenses and credits in evaluating the performance of the operating segments. Also included in this category are amortization of acquired intangible assets, stock-based compensation expense, restructuring charges and a charge related to the limited waiver of exclusivity from GF.

We use a 52 or 53 week fiscal year ending on the last Saturday in December. The quarters ended March 31, 2012, December 31, 2011 and April 2, 2011 consisted of 13, 13 and 14 weeks.

The following table provides a summary of net revenue and operating income (loss) by segment:

	March 31 2012	Quarter Ended December 31, 2011 (In millions)	April 2, 2011
Net revenue:			
Computing Solutions	\$ 1,203	\$ 1,309	\$ 1,200
Graphics	382	382	413
All Other			
Total net revenue	\$ 1,585	\$ 1,691	\$ 1,613
Operating income (loss):			
Computing Solutions	\$ 124	\$ 165	\$ 100
Graphics	34	27	19
All Other	(738)	(121)	(65)
Total operating income (loss)	\$ (580)	\$ 71	\$ 54

Computing Solutions

Computing Solutions net revenue of \$1,203 million in the first quarter of 2012 was relatively flat compared to net revenue of \$1,200 million in the first quarter of 2011 as a result of a 2% increase in unit shipments offset by a 2% decrease in average selling price. The increase in unit shipments was primarily attributable to an increase in unit shipments of our APU products for mobile devices as well as our chipset products, partially offset by a decrease in unit shipments of our desktop microprocessor products. Unit shipments of our microprocessors for mobile devices increased due to strong demand for our Brazos and Llano-based APU platforms. Chipset unit shipments increased primarily due to an increase in overall unit shipments of our microprocessor products. Unit shipments of our desktop microprocessor products decreased primarily due to lower demand. The decrease in overall average selling

Table of Contents

price was primarily attributable to a decrease in average selling price of chipset products due to a shift in our product mix to lower end microprocessor products.

Computing Solutions net revenue of \$1,203 million in the first quarter of 2012 decreased by 8% compared to \$1,309 million in the fourth quarter of 2011 as a result of a 7% decrease in overall unit shipments of our microprocessors for desktop PCs and mobile devices as well as our chipset products. The overall unit shipments of our microprocessor products decreased mainly due to lower unit shipments of certain desktop microprocessor products manufactured using the 45nm technology node, partially offset by increased unit shipments of certain microprocessor products manufactured using the 32nm technology node. In addition, the overall unit shipments of microprocessor products as well as chipset unit shipments decreased due to seasonally low demand.

Computing Solutions operating income was \$124 million in the first quarter of 2012 compared to \$100 million in the first quarter of 2011. The improvement in operating results was primarily due to a \$25 million decrease in marketing, general and administrative expenses, partially offset by a \$6 million increase in research and development expenses. Marketing, general and administrative expenses decreased and the research and development expenses increased for the reasons set forth under *Expenses* below.

Computing Solutions operating income was \$124 million in the first quarter of 2012 compared to \$165 million in the fourth quarter of 2011. The decline in operating results was primarily due to the decrease in revenue referenced above, a \$22 million increase in research and development expenses, partially offset by a \$74 million decrease in cost of sales and a \$12 million decrease in marketing, general and administrative expenses. Cost of sales decreased primarily due to lower unit shipments. Research and development expenses increased and marketing, general and administrative expenses decreased for the reasons set forth under *Expenses* below.

Graphics

Graphics net revenue of \$382 million in the first quarter of 2012 decreased by 7% compared to net revenue of \$413 million in the first quarter of 2011. The decrease was primarily due to an 11% decrease in net revenue from the sale of graphics processing unit (GPU) products, partially offset by a 32% increase in net revenue received in connection with the sale and development of game console systems that incorporate our graphics technology. Net revenue from sales of GPU products decreased due to a decrease in overall unit shipments of our GPU products, partially offset by an increase in GPU average selling price. Unit shipments decreased due to lower demand for desktop and mobile graphics products. The increase in GPU average selling price was primarily due to higher average selling price for our graphics add-in board channel products.

Graphics net revenue of \$382 million in the first quarter of 2012 was flat compared to the fourth quarter of 2011. A seasonally-driven decline in net revenue received in connection with the sale and development of game console systems that incorporate our graphics technology was substantially offset by an increase in net revenue from sales of GPU products. Net revenue from sales of GPU products increased due to higher unit shipments and GPU average selling price. The increase in GPU unit shipments was primarily due to higher customer demand for mobile graphics products. The increase in GPU average selling price was primarily due to higher average selling price for our desktop graphics products in the channel.

Graphics operating income was \$34 million in the first quarter of 2012 compared to \$19 million in the first quarter of 2011. The improvement in operating results was primarily due to a \$36 million decrease in cost of sales, a \$6 million decrease in marketing, general and administrative expenses and a \$4 million decrease in research and development expenses, partially offset by the decreased revenue referenced above. The decrease in cost of sales resulted from lower GPU unit shipments, partially offset by higher manufacturing costs. The marketing, general and administrative expenses and the research and development expenses decreased for the reasons set forth under *Expenses* below.

Graphics operating income was \$34 million in the first quarter of 2012 compared to \$27 million in the fourth quarter of 2011. The improvement in operating results was primarily due to a \$13 million decrease in research and development expense and a \$6 million decrease in marketing, general and administrative expenses, partially offset by a \$12 million increase in cost of sales. The increase in cost of sales was primarily due to higher manufacturing costs associated with the ramp of our 28nm AMD Radeon HD 7000 series graphics processors, codenamed *Southern Islands*. The marketing, general and administrative expenses and the research and development expenses decreased for the reasons set forth under *Expenses* below.

All Other

All Other operating loss of \$738 million in the first quarter of 2012 primarily included a \$703 million charge related to the limited waiver of exclusivity from GF, stock-based compensation expense of \$21 million, \$8 million restructuring charges, net, \$6 million of acquisition costs related to SeaMicro and \$1 million related to amortization of acquired intangible assets.

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

All Other operating loss of \$65 million in the first quarter of 2011 included a stock-based compensation expense of \$27 million, a \$24 million charge recorded in connection with a payment to GF primarily related to certain GF manufacturing assets which did not benefit us and \$9 million related to amortization of acquired intangible assets.

Table of Contents

All Other operating loss of \$121 million in the fourth quarter of 2011 included \$98 million of restructuring charges, net, a stock-based compensation expense of \$21 million, \$3 million related to amortization of acquired intangible assets and \$1 million loss on the repurchase of an aggregate of \$50 million principal amount of our 6.00% Convertible Senior Notes due 2015 (6.00% Notes).

Comparison of Gross Margin, Expenses, Interest Income, Interest Expense, Other Income (Expense), Net, Income Taxes, and Dilution Gain in Investee, Net

The following is a summary of certain condensed consolidated statement of operations data for the periods presented:

	Quarter Ended		
	March 31, 2012	December 31, 2011	April 2, 2011
	(In millions except percentages)		
Cost of sales	\$ 1,558	\$ 918	\$ 922
Gross margin	27	773	691
Gross margin percentage	2%	46%	43%
Research and development	\$ 368	\$ 358	\$ 367
Marketing, general and administrative	230	243	261
Amortization of acquired intangible assets	1	3	9
Restructuring charges, net	8	98	
Interest income	2	2	3
Interest expense	(43)	(43)	(48)
Other income (expense), net	(1)	(207)	11
Provision (benefit) for income taxes	(32)	(4)	2
Dilution gain in investee, net	\$	\$	\$ 492

Gross Margin

Gross margin as a percentage of net revenue was 2% in the first quarter of 2012 compared to 43% in the first quarter of 2011. Gross margin in the first quarter of 2012 included a \$703 million charge related to the limited waiver of exclusivity from GF. Gross margin in the first quarter of 2011 included a \$24 million charge recorded in connection with a payment to GF primarily related to certain GF manufacturing assets and a charge of approximately \$5 million recorded to cost of sales related to a legal settlement. Absent the effect of the charges described above, which we believe are not indicative of our ongoing operating performance, our gross margin would have been 46% in the first quarter of 2012 compared to 45% in the first quarter of 2011. The improvement in gross margin, as adjusted for the factors described above, was primarily due to an increase in net revenue received in connection with the sale and development of game console systems that incorporate our graphics technology.

Gross margin as a percentage of net revenue was 2% in the first quarter of 2012 compared to 46% in the fourth quarter of 2011. Absent the effect of the charge in the first quarter of 2012 referenced above, which we believe is not indicative of our ongoing operating performance, our gross margin in the first quarter of 2012 would have been 46%, or flat compared to the fourth quarter of 2011. Gross margin in the first quarter of 2012 benefited from the higher than anticipated demand for certain 32nm Llano products, particularly in emerging markets. However, this was offset by seasonally-driven decline in net revenue received in connection with the sale and development of game console systems that incorporate our graphics technology.

Expenses**Research and Development Expenses**

Research and development expenses of \$368 million in the first quarter of 2012 were relatively flat compared to \$367 million in the first quarter of 2011. A \$6 million increase in research and development expenses attributable to our Computing Solutions segment was partially offset by a \$4 million decrease in research and development expenses attributable to our Graphics segment. The increase in research and development expenses attributable to our Computing Solutions segment was primarily due to a \$19 million increase in manufacturing process technology expenses related to GF for our future products and a \$7 million increase in other employee compensation and benefit expense, partially offset by a \$21 million decrease in product engineering and design costs primarily due to one fewer week in the first quarter of 2012 compared to the same period in 2011. The decrease in research and development expenses attributable to our Graphics segment was primarily due to lower

manufacturing process technology expense.

Research and development expenses of \$368 million in the first quarter of 2012 increased by \$10 million compared to \$358 million in the fourth quarter of 2011. The increase was primarily due to a \$22 million increase in research and development expenses

Table of Contents

attributable to our Computing Solutions segment, partially offset by a \$13 million decrease in research and development expenses attributable to our Graphics segment. The increase in research and development expenses attributable to our Computing Solutions segment was primarily due to a \$27 million increase in manufacturing process technology expenses related to GF for our future products, partially offset by a \$7 million decrease in product engineering and design costs which reflected our efforts to reduce operating expense. The decrease in research and development expenses attributable to our Graphics segment was primarily due to a \$7 million decrease in product engineering and design costs and a \$4 million decrease in other employee compensation and benefit expense.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses of \$230 million in the first quarter of 2012 decreased by \$31 million compared to \$261 million in the first quarter of 2011. The decrease was primarily due to a \$25 million decrease in marketing, general and administrative expenses attributable to our Computing Solutions segment and a \$6 million decrease in marketing, general and administrative expenses attributable to our Graphics segment, as well as an absence of \$13 million of separation costs related to the resignation of our former Chief Executive Officer in the first quarter of 2011. These decreases were partially offset by \$6 million of acquisition costs related to SeaMicro. The decrease in marketing, general and administrative expenses attributable to our Computing Solutions segment and Graphics segment was primarily due to a decrease in sales and marketing activities resulting from a restructuring plan implemented during the fourth quarter of 2011.

Marketing, general and administrative expenses of \$230 million in the first quarter of 2012 decreased by \$13 million compared to \$243 million in the fourth quarter of 2011. The decrease was primarily due to a \$12 million decrease in marketing, general and administrative expenses attributable to our Computing Solution segment and a \$6 million decrease in marketing, general and administrative expenses attributable to our Graphics segment, partially offset by \$6 million of acquisition costs related to SeaMicro. The decrease in marketing, general and administrative expenses attributable to our Computing Solutions segment and our Graphics segment was primarily due to a decrease in sales and marketing activities resulting from a restructuring plan implemented during the fourth quarter of 2011.

Interest Expense

Interest expense of \$43 million in the first quarter of 2012 decreased from \$48 million in the first quarter of 2011 primarily due to a net reduction in the principal amount of our outstanding debt.

Interest expense of \$43 million in the first quarter of 2012 was flat compared to the fourth quarter of 2011.

Other Income (Expense), Net

Other expense, net in the first quarter of 2012 was \$1 million compared to \$11 million of other income, net in the first quarter of 2011 and \$207 million of other expense, net in the fourth quarter of 2011.

In the first quarter of 2011, we recognized a \$9 million gain recognized from foreign currency exchange rate fluctuations. In the fourth quarter of 2011, we recorded a non-cash impairment charge of approximately \$209 million related to our investment in GF.

Income Taxes

In the first quarter of 2012, we recorded an income tax provision benefit of \$32 million due to a tax benefit of \$36 million relating to the SeaMicro acquisition, and a \$1 million tax benefit for the tax effects of items credited directly to other comprehensive income, which was offset by \$5 million of foreign taxes in profitable locations. The tax impact of the transfer of our remaining shares of capital stock in GF to GF during the first quarter of 2012 was not material due to the existence of the U.S. valuation allowance.

In the first quarter of 2011, we recorded an income tax provision of \$2 million consisting of foreign taxes in profitable locations of \$3.5 million, partially offset by \$1.5 million of U.S. tax benefits from the monetization of U.S. tax credits. The tax impact of the non-cash gain related to the dilution of our equity interest in GF during the first quarter of 2011 was not material due to the existence of the U.S. valuation allowance.

Purchase accounting for the SeaMicro acquisition required the establishment of a deferred tax liability related to the book tax basis differences of identifiable intangible assets that increased goodwill. The deferred tax liability created an additional source of U.S. future taxable income which resulted in a release of a portion of our U.S. valuation allowance. This resulted in a discrete income tax provision benefit of approximately \$36 million in the first quarter of 2012.

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

As of March 31, 2012, substantially all of our U.S. and Canadian deferred tax assets, net of deferred tax liabilities, continue to be subject to a valuation allowance. The realization of these assets is dependent on substantial future taxable income which as of March 31, 2012, in management's estimate, is not more likely than not to be achieved.

Table of Contents**Stock-Based Compensation Expense**

The following table summarizes stock-based compensation expense related to employee stock options and restricted stock units, which we allocated in the condensed consolidated statements of operations:

	March 31, 2012	Quarter Ended December 31, 2011 (In millions)	April 2, 2011
Cost of sales	\$ 2	\$ 2	\$ 1
Research and development	11	11	12
Marketing, general, and administrative	8	8	14
Stock-based compensation expense, net of tax of \$0	\$ 21	\$ 21	\$ 27

For all period presented, we did not realize any excess tax benefit related to stock-based compensation and therefore did not record any related financing cash flows.

Stock-based compensation expenses of \$21 million in the first quarter of 2012 decreased \$6 million as compared to \$27 million in the first quarter of 2011 and was flat as compared to the fourth quarter of 2011. The decrease was primarily due to the absence of accelerated vesting of all unvested equity incentive awards held by our former Chief Executive Officer in the first quarter of 2011 as a result of his resignation from AMD, effective January 10, 2011, pursuant to the terms of his employment and separation agreements. The stock-based compensation expenses related to the grants made in connection with the SeaMicro acquisition were immaterial in the first quarter of 2012.

2011 Restructuring Plan

In the fourth quarter of 2011, we initiated a restructuring plan to strengthen our competitive positioning, implement a more competitive cost structure and conduct a workforce rebalancing to better address faster growing market segments. The plan included a reduction of our global workforce by 13% and contract and program terminations and was substantially completed as of the end of the first quarter of 2012.

The following table provides a summary of the restructuring activities during the first quarter of 2012 and the remaining related liabilities recorded in Other current liabilities and Other long-term liabilities on our condensed consolidated balance sheet as of March 31, 2012:

	Severance and related benefits	Other exit Related Costs (In millions)	Total
Balance as of December 31, 2011	\$ 22	\$ 45	\$ 67
Charges associated with additional workforce reduction	8		8
Cash payments	(20)		(20)
Balance as of March 31, 2012	\$ 10	\$ 45	\$ 55

International Sales

International sales as a percentage of net revenue were 93% in the first quarter of 2012, 93% in the first quarter of 2011 and 90% in the fourth quarter of 2011. 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.

Table of Contents

FINANCIAL CONDITION

Liquidity

As of March 31, 2012, our cash, cash equivalents and marketable securities of \$1.5 billion decreased by \$221 million compared to December 31, 2011. During the first quarter of 2012, we paid \$281 million, net to acquire SeaMicro, Inc. (SeaMicro).

Our debt and capital lease obligations as of March 31, 2012 were \$2 billion, which reflected a debt discount adjustment of \$72 million on our 6.00% Convertible Senior Notes due 2015 (6.00% Notes) and 8.125% Senior Notes due 2017 (8.125% Notes). As of March 31, 2012, our 5.75% Convertible Senior Notes due 2012 (5.75% Notes) with a carrying amount of \$485 million were classified as current liabilities. We may elect to refinance the outstanding amount of our 5.75% Notes, or to purchase or otherwise retire the outstanding amount of our 5.75% Notes in open market or privately negotiated transactions, either directly or through intermediaries. Otherwise, we will pay off the outstanding amount of our 5.75% Notes at maturity.

For the first quarter of 2012, our non-GAAP free cash flow was \$67 million. Free cash flow is a non-GAAP measure, which we calculated by taking GAAP net cash provided by operating activities for the first quarter of 2012 of \$107 million and subtracting capital expenditures, which were \$40 million for the first quarter of 2012. For the first quarter of 2011, our non-GAAP adjusted free cash flow was \$154 million. This non-GAAP measure was calculated by taking GAAP net cash used by operating activities for the first quarter of 2011 of \$168 million and adding an amount of \$360 million, which represents payments made by certain of our distributor customers during the first quarter of 2011, to IBM Credit LLC and certain of its subsidiaries (collectively, the IBM Parties) pursuant to our former accounts receivable financing arrangement among AMD, certain AMD subsidiaries and the IBM Parties, which we terminated in February 2011. Then the resulting amount of \$192 million was adjusted by subtracting capital expenditures, which were \$38 million for the first quarter of 2011.

Compared to our non-GAAP adjusted free cash flow of \$154 million for the first quarter of 2011, the decrease in our non-GAAP free cash flow for the first quarter of 2012 was primarily attributable to the absence of \$360 million in payments made by our distributor customers to the IBM Parties in the first quarter of 2011, offset by an increase in cash flow from operating activities of \$275 million.

We had various supplier agreements with the IBM Parties pursuant to which we sold invoices of selected distributor customers. Under this financing arrangement, we did not recognize revenue until our distributors sold our products to their customers. Under GAAP, we classified funds received from the IBM Parties as debt on the balance sheet. Moreover, for cash flow purposes, we classified these funds as cash flows from financing activities. When a distributor paid the applicable IBM Party, we reduced the distributor's accounts receivable and the corresponding debt resulted in a non-cash accounting entry. Because we did not receive the cash from the distributor to reduce the accounts receivable, the distributor's payment was not reflected in our cash flows from operating activities.

Generally, under GAAP, the reduction in accounts receivable is assumed to be a source of operating cash flow. Therefore, we believe that treating the payments from our distributor customers to the IBM Parties as if we actually received the cash from the distributor and then used that cash to pay down the debt to the IBM Parties was more reflective of the economic substance of the financing arrangement with the IBM Parties. We calculate and communicate adjusted free cash flow because our management believes it is important for investors to understand the nature of these cash flows. Our calculation of adjusted free cash flow may or may not be consistent with the calculation of this measure by other companies in the same industry. Investors should not view adjusted free cash flow as an alternative to GAAP liquidity measures of cash flows from operating or financing activities. Commencing in the third quarter of 2011, we no longer make the adjustment for distributor's payments to the IBM Parties to our GAAP net cash provided by operating activities when calculating our non-GAAP adjusted free cash flow.

We believe that cash, cash equivalents and marketable securities balances as of March 31, 2012, anticipated cash flow from operations and available external financing will be sufficient to fund operations, including capital expenditures and debt repayment, over the next twelve months.

We believe that in the event we require additional funding, we will be able to access the capital markets on terms and in amounts adequate to meet our objectives. However, given the possibility of changes in market conditions or other occurrences, we cannot be certain that such funding will be available on terms favorable to us or at all.

Over the longer term, should additional funding be required, such as to meet payment obligations of our short-term and 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, through the issuance of securities in a transaction exempt from registration under the Securities Act of 1933, 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. We cannot assure you that conditions will improve, and they could worsen. If market conditions do not

improve or 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.

Table of Contents

Auction Rate Securities (ARS)

As a result of the uncertainties in the credit markets, all of our ARS were negatively affected, and since February 2008, auctions for these securities failed to settle on their respective settlement dates. However, there have been no defaults on these securities, and we have received all interest payments as they became due.

As of March 31, 2012, the par value of our ARS was \$37 million, with an estimated fair value of \$32 million. Total ARS, at fair value, represented 2% of our total investment portfolio as of March 31, 2012.

Based on recent tender and redemption activities and the fact that the secondary market for these securities has become more liquid, with pricing generally similar to our carrying value, we classified these securities as current marketable securities as of March 31, 2012. We have the intent and believe we have the ability to sell these securities within the next 12 months.

Operating Activities

Net cash provided by operating activities was \$107 million in the first quarter of 2012. Net loss of \$590 million was adjusted for non-cash charges consisting primarily of a \$278 million non-cash charge equal to the fair value of our transferred capital stock in GF related to the limited waiver of exclusivity from GF, \$63 million of depreciation and amortization expense, \$21 million of stock-based compensation expense and \$6 million of non-cash interest expense. These charges were partially offset by \$36 million of benefit for deferred income taxes. The net changes in operating assets as of March 31, 2012 compared to December 31, 2011 included a decrease in accounts receivable of \$40 million, which was primarily due to the timing of sales and collections during the first quarter of 2012. During the first quarter of 2012, payable to GF increased by \$384 million. Payable to GF included all amounts due to GF by us. The amount payable to GF increased primarily due to the remaining cash obligation of \$275 million related to the limited waiver of exclusivity from GF. Accounts payable, accrued liabilities and other increased by \$187 million primarily due to a \$157 million increase in trade accounts payable due to the timing of payments, a \$15 million increase in deferred income on shipments to our distributor customers, an \$8 million increase in accrued compensation and benefits, and an \$8 million increase in other liabilities. Prepaid expenses and current assets increased by \$41 million primarily due to a \$26 million increase in non-trade accounts receivable and \$7 million net payments for technology licenses.

Net cash used in operating activities was \$168 million in the first quarter of 2011. Net income of \$510 million was adjusted for non-cash charges consisting primarily of \$88 million of depreciation and amortization expense and \$27 million of stock-based compensation expense. These charges were partially offset by recognition of a non-cash gain of \$492 million due to the dilution of our equity interest in GF. The net changes in operating assets at April 2, 2011 compared to December 25, 2010 included an increase in accounts receivable of \$189 million, which included the non-cash impact of our former financing arrangements with the IBM Parties. During the first quarter of 2011, the IBM Parties collected approximately \$360 million from our distributor customers pursuant to these arrangements. Without considering the collection by the IBM Parties of the accounts receivables that we sold to them, our accounts receivable decreased by \$171 million. This decrease was primarily due to the timing of sales and collections during the first quarter of 2011. Accounts payable to GF decreased by \$78 million due to the timing of payments during the first quarter of 2011.

Investing Activities

Net cash provided by investing activities was \$200 million in the first quarter of 2012. We had a net cash inflow of \$525 million from sale and maturity of available for sale securities, partially offset by a net cash outflow of \$281 million related to the acquisition of SeaMicro and a net cash outflow of \$39 million for purchases of property, plant and equipment.

Net cash used in investing activities was \$14 million in the first quarter of 2011. We had a net cash outflow of \$38 million for purchases of property, plant and equipment, and payments of \$17 million for professional services related to the contribution of GLOBALFOUNDRIES Singapore Pte. Ltd. to GF, offset by a net cash inflow of \$41 million from the maturity of available-for-sale securities.

Financing Activities

Net cash provided by financing activities was \$17 million in the first quarter of 2012 primarily due to net proceeds from foreign grants of \$9 million and \$9 million from the exercise of employee stock options.

Net cash provided by financing activities was \$178 million in the first quarter of 2011 primarily as a result of proceeds of \$165 million from our former financing arrangements with the IBM Parties and \$9 million from the exercise of employee stock options.

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

During the first quarters of 2012 and 2011, we did not realize any excess tax benefit related to stock-based compensation, and therefore we did not record any related financing cash flows.

Table of Contents**Contractual Obligations**

The following table summarizes our consolidated principal contractual cash obligations, as of March 31, 2012, and is supplemented by the discussion following the table (in millions):

	Total	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017 and beyond
5.75% Convertible Senior Notes due 2012	\$ 485	\$ 485	\$	\$	\$	\$	\$
6.00% Convertible Senior Notes due 2015 ⁽¹⁾	580				580		
8.125% Senior Notes due 2017 ⁽¹⁾	500						500
7.75% Senior Notes due 2020	500						500
Other long-term liabilities	33		31	1			1
Aggregate interest obligation ⁽²⁾	678	97	114	114	94	79	180
Capital lease obligations ⁽³⁾	30	4	6	6	6	6	2
Operating leases	181	30	35	33	27	19	37
Purchase Obligations ⁽⁴⁾	1,905	1,830	40	23	12		
Total contractual obligations	\$ 4,892	\$ 2,446	\$ 226	\$ 177	\$ 719	\$ 104	\$ 1,220

⁽¹⁾ Represents aggregate par value of the notes, without the effect of associated discounts.

⁽²⁾ 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 the 8.125% Notes and the 6.00% Notes.

⁽³⁾ Includes principal and imputed interest.

⁽⁴⁾ We have purchase obligations for goods and services where payments are based, in part, on the volume or type of services we require. 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. Also, this amount includes the estimated future purchase obligations of \$1.5 billion to GF under the WSA, as amended. Amounts for years subsequent to 2012 are subject to future negotiations and we expect will continue to be material, are not included in the table above. See Purchase Obligations below.

5.75% Convertible Senior Notes due 2012

On August 14, 2007, we issued \$1.5 billion aggregate principal amount of the 5.75% Notes. The 5.75% Notes are our general unsecured senior obligations. Interest is payable in arrears on February 15 and August 15 of each year beginning February 15, 2008 until the maturity date of August 15, 2012. The terms of the 5.75% Notes are governed by an indenture (the 5.75% Indenture), dated as of August 14, 2007, by and between us and Wells Fargo Bank, National Association, as Trustee.

As of March 31, 2012, the remaining outstanding aggregate principal amount of our 5.75% Notes was \$485 million.

We may elect to refinance the outstanding amount of our 5.75% Notes, or to purchase or otherwise retire the outstanding amount of our 5.75% Notes in open market or privately negotiated transactions, either directly or through intermediaries. Otherwise, we will pay off the outstanding amount of our 5.75% Notes at maturity.

6.00% Convertible Senior Notes due 2015

On April 27, 2007, we issued \$2.2 billion aggregate principal amount of 6.00% Notes. The 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 the 6.00% Notes are governed by an indenture (the 6.00% Indenture) dated April 27, 2007, by and between us and Wells Fargo Bank, National Association, as Trustee.

As of March 31, 2012, the outstanding aggregate principal amount of our 6.00% Notes was \$580 million and the remaining carrying value was approximately \$548 million, net of debt discount of \$32 million.

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

We may elect to purchase or otherwise retire the balance of the 6.00% 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.

Table of Contents**8.125% Senior Notes Due 2017**

On November 30, 2009, we issued \$500 million of the 8.125% Notes at a discount of 10.204%. The 8.125% Notes are our general unsecured senior obligations. Interest is payable on June 15 and December 15 of each year beginning June 15, 2010 until the maturity date of December 15, 2017. The discount of \$51 million is recorded as contra debt and is amortized to interest expense over the life of the 8.125% Notes using the effective interest method. The 8.125% Notes are governed by the terms of an indenture (the 8.125% Indenture) dated November 30, 2009 between us and Wells Fargo Bank, National Association, as Trustee.

From December 15, 2013, we may redeem the 8.125% Notes for cash at the following specified prices plus accrued and unpaid interest:

Period	Price as Percentage of Principal Amount
Beginning on December 15, 2013 through December 14, 2014	104.063%
Beginning on December 15, 2014 through December 14, 2015	102.031%
On December 15, 2015 and thereafter	100.000%

As of March 31, 2012, the outstanding aggregate principal amount of our 8.125% Notes was \$500 million and the remaining carrying value was approximately \$460 million, net of debt discount of \$40 million.

We may elect to purchase or otherwise retire the 8.125% Notes with cash, stock or other assets from time to time in open market or private negotiated transactions, either directly or through intermediaries, or by tender offer, when we believe the market conditions are favorable to do so.

7.75% Senior Notes Due 2020

On August 4, 2010, we issued \$500 million of the 7.75% Senior Notes Due 2020 (7.75% Notes). The 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. The 7.75% Notes are governed by the terms of an indenture (the 7.75% Indenture) dated August 4, 2010 between us and Wells Fargo Bank, National Association, as Trustee.

From August 1, 2015, we may redeem the 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 and on August 1, 2018 and thereafter	101.292% 100.000%

As of March 31, 2012, the outstanding aggregate principal amount of our 7.75% Notes was \$500 million.

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

The agreements governing our 5.75% Notes, 6.00% Notes, 8.125% Notes and 7.75% Notes 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 to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable.

Table of Contents

Other Long-Term Liabilities

Other long-term liabilities in the contractual obligations table above include \$21 million related to employee benefit obligations, the majority of which will be paid through 2013 and \$12 million of payments due under certain software and technology licenses that will be paid through 2014.

Table of Contents

Other long-term liabilities excludes amounts recorded on our condensed consolidated balance sheet that do not require us to make cash payments, which, as of March 31, 2012, primarily consisted of \$16 million of deferred gains resulting from the sale and leaseback of certain of our facilities. Also excluded from other long-term liabilities is \$6 million of non-current unrecognized tax benefits, which is included in the caption Other long-term liabilities on our condensed consolidated balance sheet as of March 31, 2012. This amount represents a potential cash payment that could be payable by us upon settlement with a taxing authority. We have not included this amount in the contractual obligations table above because we cannot make a reasonably reliable estimate regarding the timing of a settlement with the taxing authority, if any.

Capital Lease Obligations

As of March 31, 2012, we had aggregate outstanding capital lease obligations of \$26 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 our facilities are built, under non-cancelable lease agreements that expire at various dates through 2022. We lease certain manufacturing and office equipment for terms ranging from 1 to 5 years. Total future non-cancelable lease obligations as of March 31, 2012 were \$181 million.

Purchase Obligations

Our purchase obligations primarily include our obligations to purchase wafers and substrates from third parties. As of March 31, 2012, total non-cancelable purchase obligations, other than those to GF under the amended WSA of \$1.5 billion, were \$405 million.

GF is a related party of AMD. Our total purchases from GF related to wafer manufacturing and research and development activities during the first quarter of 2012 amounted to approximately \$420 million. See Note 2 for additional information on the WSA with GF.

Recently Adopted Accounting Standards

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. We adopted this standard in the first quarter of 2012. The adoption of this standard did not materially impact our condensed consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income, which requires disclosure of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. ASU 2011-05 became effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In December 2011, the FASB has issued ASU 2011-12, Comprehensive Income (Topic 220), that deferred the requirement to separately present within net income reclassification adjustments of items out of accumulated other comprehensive income. We adopted this standard during the first quarter of 2012. The adoption of this standard only impacted the presentation format of our condensed consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles - Goodwill and Other (Topic 350) Testing Goodwill for Impairment (revised topic). The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this standard during the first quarter of 2012. The adoption of this standard will not materially impact our condensed consolidated financial statements.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2011.

There have not been any other material changes in market risk since December 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports 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, our 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 our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of March 31, 2012, the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There was no change in our internal controls over financial reporting during our first quarter of 2012 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones we face. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In addition, you should consider the interrelationship and compounding effects of two or more risks occurring simultaneously.

Intel Corporation's dominance of the microprocessor market and its aggressive business practices may limit our ability to compete effectively.

Intel Corporation has dominated the market for microprocessors for many years. Intel's market share, margins and significant financial resources enable it to market its products aggressively, to target our customers and our channel partners with special incentives, and to discipline customers who do business with us. These aggressive activities have in the past and are likely in the future to result in lower unit sales and a lower average selling price for our products and adversely affect our margins and profitability.

Intel exerts substantial influence over computer manufacturers and their channels of distribution through various brand and other marketing programs. As a result of Intel's dominant position in the microprocessor market, Intel has been able to control x86 microprocessor and computer system standards and benchmarks and to dictate the type of products the microprocessor market requires of us. Intel also dominates the computer system platform, which includes core logic chipsets, graphics chips, motherboards and other components necessary to assemble a computer system. Original Equipment Manufacturers, or OEMs, that purchase microprocessors for computer systems are highly dependent on Intel, less innovative on their own and, to a large extent, are distributors of Intel technology. Additionally, Intel is able to drive de facto standards for x86 microprocessors that could cause us and other companies to have delayed access to such standards.

Intel has substantially greater financial resources than we do and accordingly spends substantially greater amounts on research and development than we do. We expect Intel to maintain its dominant position and to continue to invest heavily in marketing, research and development, new manufacturing facilities and other technology companies. To the extent Intel manufactures a significantly larger portion of its microprocessor products using more advanced process technologies, or introduces competitive new products into the market before we do, we may be more vulnerable to Intel's aggressive marketing and pricing strategies for microprocessor products. Intel also leverages its dominance in the microprocessor market to sell its integrated chipsets. Intel manufactures and sells integrated graphics chipsets bundled with their microprocessors and is a dominant competitor with respect to this portion of our business. The continued improvement of the quality of Intel's integrated graphics, along with higher unit shipments of our APU products, may drive computer manufacturers to reduce the number of systems they build paired with discrete graphics components, particularly for mobile PCs, because they may offer satisfactory graphics performance for most mainstream PC users, at a lower cost. Intel could also take actions that place our discrete GPUs at a competitive disadvantage, including giving one or more of our competitors in the graphics market, such as Nvidia Corporation, preferential access to its proprietary graphics interface or other useful information.

As long as Intel remains in this dominant position, we may be materially adversely affected by Intel's:

business practices, including rebating and allocation strategies and pricing actions, designed to limit our market share and margins;

product mix and introduction schedules;

product bundling, marketing and merchandising strategies;

exclusivity payments to its current and potential customers and channel partners;

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

control over industry standards, PC manufacturers and other PC industry participants, including motherboard, memory, chipset and basic input/output system, or BIOS, suppliers and software companies as well as the graphics interface for Intel platforms; and

marketing and advertising expenditures in support of positioning the Intel brand over the brand of its OEM customers.

Intel's dominant position in the microprocessor market and integrated graphics chipset market, its existing relationships with top-tier OEMs and its aggressive marketing and pricing strategies could result in lower unit sales and a lower average selling price for our products, which could have a material adverse effect on us.

The success of our business is dependent upon our ability to introduce products on a timely basis with features and performance levels that provide value to our customers while supporting and coinciding with significant industry transitions.

Our success depends to a significant extent on the development, qualification, implementation and acceptance of new product designs and improvements that provide value to our customers. Our ability to develop, qualify and distribute new products and related

Table of Contents

technologies to meet evolving industry requirements, at prices acceptable to our customers and on a timely basis are significant factors in determining our competitiveness in our target markets. If we fail to or are delayed in developing, qualifying or shipping new products or technologies, we may lose competitive positioning, which could cause us to lose market share and require us to discount the selling prices of our products.

Delays in developing, qualifying or shipping new products can also cause us to miss our customers' product design windows. If our customers do not include our products in the initial design of their computer systems, they will typically not use our products in their systems until at least the next design configuration. The process of being qualified for inclusion in a customer's system can be lengthy and could cause us to further miss a cycle in the demand of end-users, which also could result in a loss of market share and harm our business.

Moreover, market demand requires that products incorporate new features and performance standards on an industry-wide basis. Over the life of a specific product, the average selling price undergoes regular price reductions. The introduction of new products and enhancements to existing products is necessary to maintain an overall corporate average selling price. If we are unable to introduce new products with sufficient increases in average selling price or increased unit sales volumes capable of offsetting the reductions in the average selling price of existing products, our business could be materially adversely affected.

With the introduction of our APU products, computer manufacturers have increasingly selected APUs for their AMD product-based solutions, particularly for mobile PCs, because our APU platforms cost less than the combined cost of a legacy microprocessor, discrete graphics card and chipset, while offering comparable performance to mainstream discrete graphics cards, which we believe is sufficient for most mainstream PC users. We believe that demand for additional discrete graphic cards may decrease in the future due to both the continued improvement of the quality of Intel's integrated graphics and the discrete level graphics performance of our APUs.

We rely on third parties to manufacture our products, and if they are unable to do so on a timely basis in sufficient quantities and using competitive technologies, our business could be materially adversely affected.

We rely on third party wafer foundries to fabricate the silicon wafers for all of our products. We also rely on third party providers to assemble, test, mark and pack certain of our products. It is important to have reliable relationships with all of these third party manufacturing suppliers to ensure adequate product supply to respond to customer demand.

We cannot assure you that these manufacturers or our other third party manufacturing suppliers will be able to meet our near-term or long-term manufacturing requirements. For example, during the fourth quarter of 2011, we experienced reduced supply of 45nm products from GF because of a manufacturing disruption that reduced the number of 45nm wafers available for production. If we experience future supply constraints, from our third party manufacturing suppliers, we may be required to allocate the affected products amongst our customers, which could have a material adverse effect on our relationships with these customers and on our financial condition. In addition, depending on the timing of supply of products during any given quarter, customer demand may fluctuate.

We do not have long-term commitment contracts with some of our third party manufacturing suppliers. We obtain some of these manufacturing services on a purchase order basis and these manufacturers are not required to provide us with any specified minimum quantity of product. Accordingly, we depend on these suppliers to allocate to us a portion of their manufacturing capacity sufficient to meet our needs, to produce products of acceptable quality and at acceptable manufacturing yields and to deliver those products to us on a timely basis and at acceptable prices. The manufacturers we use also fabricate wafers and assemble, test and package products for other companies, including certain of our competitors. They could choose to prioritize capacity for other users, increase the prices that they charge us on short notice or reduce or eliminate deliveries to us, which could have a material adverse effect on our business.

Other risks associated with our dependence on third-party manufacturers include limited control over delivery schedules and quality assurance, lack of capacity in periods of excess demand, misappropriation of our intellectual property, dependence on several small undercapitalized subcontractors, and limited ability to manage inventory and parts. Moreover, if any of our third party manufacturing suppliers suffer any damage to facilities, lose benefits under material agreements, experience power outages, lack sufficient capacity to manufacture our products, encounter financial difficulties, are unable to secure necessary raw materials from their suppliers, or suffer any other disruption or reduction in efficiency, we may encounter supply delays or disruptions. If we are unable to secure sufficient or reliable supplies of products, our ability to meet customer demand may be adversely affected and this could materially affect our business.

If we transition the production of some of our products to new manufacturers, we may experience delayed product introductions, lower yields or poorer performance of our products. If we experience problems with product quality or are unable to secure sufficient capacity from a particular third party manufacturing supplier, or if we for other reasons cease utilizing one of those suppliers, we may be unable to secure an alternative supply for any specific product in a short time frame. We could experience significant delays in the shipment of our products if we are required

to find alternative third party manufacturing suppliers, which could have a material adverse effect on our business.

Table of Contents

We rely on GF to manufacture most of our products. If GF is not able to satisfy our manufacturing requirements, our business could be adversely impacted.

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. On March 4, 2012, we entered into a second amendment to the WSA. The primary effect of this 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. Pursuant to the amendment, GF has committed to provide us with, and we have committed to purchase, a fixed number of production wafers in 2012. We will pay GF fixed prices for production wafers delivered in 2012. If GF encounters any problems that significantly reduce the number of functional die we receive from each wafer, then under our fixed wafer price arrangement, this will have the effect of increasing our per-unit cost for our products and could also reduce the number of products available for sale to our customers, which may have an adverse impact on our results of operations. For example, during the third quarter of 2011, GF experienced yield and other manufacturing difficulties related to 32nm wafer fabrication, resulting in lower than expected supply of 32nm products to us. Also in the third quarter of 2011, we experienced supply constraints for our 45nm microprocessor products from GF due to complexities related to the use of common tools across both 32nm and 45nm technology nodes and because we made the decision to shift volume away from products manufactured using the 45nm technology node in order to obtain additional 32nm products. Because we were supply constrained with respect to 32nm and 45nm wafers, our revenues and gross margin in the third quarter of 2011 were adversely impacted. Also, during the fourth quarter of 2011, we experienced reduced supply of 45nm product from GF because of a manufacturing disruption that reduced the number of 45nm wafers available for production. If GF is unable to achieve anticipated manufacturing yields, remain competitive using advanced process technologies or manufacture our products on a timely basis, or meet our capacity requirements, then we may experience delays in product launches or supply shortages for certain products and our business could be materially adversely affected.

In addition, GF relies on Advanced Technology Investment Company (ATIC) for its funding needs. If ATIC failed to adequately fund GF on a timely basis, or at all, GF's ability to manufacture products for us would be materially adversely effected.

Failure to achieve expected manufacturing yields for our products could negatively impact our financial results.

Semiconductor manufacturing yields are a result of both product design and process technology, which is typically proprietary to the manufacturer, and low yields can result from design failures, process technology failures, or a combination of both. Our third-party foundries are responsible for the process technologies used to fabricate silicon wafers. If our third-party foundries experience manufacturing inefficiencies or encounter disruptions, errors or difficulties during production, we may fail to achieve acceptable yields or experience product delivery delays. We cannot be certain that our third-party foundries will be able to develop, obtain or successfully implement leading-edge process technologies needed to manufacture future generations of our products profitably or on a timely basis or that our competitors will not develop new technologies, products or processes earlier. Moreover, during periods when foundries are implementing new process technologies, their manufacturing facilities may not be fully productive. A substantial delay in the technology transitions to smaller process technologies could have a material adverse effect on us, particularly if our competitors transition to more cost effective technologies before us. Any decrease in manufacturing yields could result in an increase in per unit costs, which would adversely impact our gross margin and/or force us to allocate our reduced product supply amongst our customers, which could harm our relationships with our customers and reputation and materially adversely affect our business.

Global economic uncertainty may adversely impact our business and operating results.

Uncertain global economic conditions have in the past and may in the future adversely impact our business. During challenging economic times, our current or potential future customers may experience cash flow problems and as a result may modify, delay or cancel plans to purchase our products. Additionally, if our customers are not successful in generating sufficient revenue or are unable to secure financing, they may not be able to pay, or may delay payment of, accounts receivable that they owe us. Any inability of our current or potential future customers to pay us for our products may adversely affect our earnings and cash flow. Moreover, our key suppliers may reduce their output or become insolvent, thereby adversely impacting our ability to manufacture our products. In addition, uncertain economic conditions may make it more difficult for us to raise funds through borrowings or private or public sales of debt or equity securities.

Our ability to design and introduce new products in a timely manner is dependent upon third-party intellectual property.

In the design and development of new products and product enhancements, we rely on third-party intellectual property such as software development tools and hardware testing tools. Furthermore, certain product features may rely on intellectual property acquired from third parties. The design requirements necessary to meet consumer demands for more features and greater functionality from semiconductor products in the future may exceed the capabilities of the third-party intellectual property or development tools available to us. If the third-party intellectual property that we use becomes unavailable or fails to produce designs that meet consumer demands, our business could be materially adversely affected.

Table of Contents

We depend on third-party companies for the design, manufacture and supply of motherboards, BIOS software and other computer platform components to support our microprocessor and graphics businesses.

We depend on third-party companies for the design, manufacture and supply of motherboards, BIOS software and other components that our customers utilize to support our microprocessor and GPU offerings. We also rely on our add-in-board partners (AIBs) to support our GPU business. In addition, our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel microprocessors. If the designers, manufacturers, AIBs and suppliers of motherboards and other components decrease their support for our product offerings, our business could be materially adversely affected.

If we lose Microsoft Corporation's support for our products or other software vendors do not design and develop software to run on our products, our ability to sell our products could be materially adversely affected.

Our ability to innovate beyond the x86 instruction set controlled by Intel depends partially on Microsoft designing and developing its operating systems to run on or support our microprocessor products. With respect to our graphics products, we depend in part on Microsoft to design and develop its operating system to run on or support our graphics products. Similarly, the success of our products in the market, such as our APU products, is dependent on independent software providers designing and developing software to run on our products. If Microsoft does not continue to design and develop its operating systems so that they work with our x86 instruction sets or does not continue to develop and maintain their operating systems to support our graphics products, independent software providers may forego designing their software applications to take advantage of our innovations and customers may not purchase PCs with our products. In addition, some software drivers sold with our products are certified by Microsoft. If Microsoft did not certify a driver, or if we otherwise fail to retain the support of Microsoft or other software vendors, our ability to market our products would be materially adversely affected.

The loss of a significant customer may have a material adverse effect on us.

Collectively, our top five customers accounted for approximately 51% of our net revenue in the first quarter of 2012. On a segment basis, during the first quarter of 2012, five customers accounted for approximately 58% of the net revenue of our Computing Solutions segment and five customers accounted for approximately 48% of the net revenue of our Graphics segment. We expect that a small number of customers will continue to account for a substantial part of revenues of our microprocessor and graphics businesses in the future. If one of our top microprocessor or graphics business customers decided to stop buying our products, or if one of these customers were to materially reduce its operations or its demand for our products, our business would be materially adversely affected.

Our inability to continue to attract and retain qualified personnel may hinder our product development programs.

Much of our future success depends upon the continued service of numerous qualified engineering, marketing, sales and executive personnel. If we are not able to continue to attract, train, and retain qualified personnel necessary for our business, the progress of our product development programs could be hindered, and we could be materially adversely affected.

If we cannot generate sufficient revenues and operating cash flow or obtain external financing, we may face a cash shortfall and be unable to make all of our planned investments in research and development or other strategic investments.

Although we make substantial investments in research and development, we cannot be certain that we will be able to develop, obtain or successfully implement new products and technologies on a timely basis. Our ability to fund research and development expenditures depends on generating sufficient cash flow from operations and the availability of external financing, if necessary. Our research and development expenditures, together with ongoing operating expenses, will be a substantial drain on our cash flow and may decrease our cash balances. If new competitors, technological advances by existing competitors or other competitive factors require us to invest significantly greater resources than anticipated in our research and development efforts, our operating expenses would increase. If we are required to invest significantly greater resources than anticipated in research and development efforts without an increase in revenue, our operating results could decline.

We regularly assess markets for external financing opportunities, including debt and equity financing. Additional debt or equity financing may not be available when needed or, if available, may not be available on satisfactory terms. The health of the credit markets may adversely impact our ability to obtain financing when needed. In addition, any downgrades from credit rating agencies such as Moody's or Standard & Poor's may adversely impact our ability to obtain external financing or the terms of such financing. Credit agency downgrades may also impact relationships with our suppliers, who may limit our credit lines. Our inability to obtain needed financing or to generate sufficient cash from operations may require us to abandon projects or curtail planned investments in research and development or other strategic initiatives. If we curtail planned investments in research and development or abandon projects, our products may fail to remain competitive and our business would be materially adversely affected.

Table of Contents

The markets in which our products are sold are highly competitive.

The markets in which our products are sold are very competitive, and delivering the latest and best products to market on a timely basis is critical to achieving revenue growth. We believe that the main factors that determine our product competitiveness are timely product introductions, product quality, power consumption (including battery life), reliability, selling price, speed, size (or form factor), cost, adherence to industry standards (and the creation of open industry standards), software and hardware compatibility and stability and brand awareness.

We expect that competition will continue to be intense due to rapid technological changes, frequent product introductions by our competitors of products that provide better performance or include additional features that render our products uncompetitive and aggressive pricing by competitors, especially during challenging economic times. For example, ARM-based processors are used in mobile and embedded electronics products as relatively low cost and small microprocessors and also in form factors such as tablets and smartphones. To the extent consumers adopt new form factors and have different requirements than those consumers in the PC market, it could negatively impact PC sales, which could negatively impact our business. Also, Intel expects 3-D 22nm process technology with 3-D tri-gate transistor architecture can improve power consumption and performance of its products. Using a more advanced process technology can contribute to lower product manufacturing costs and improve a product's performance and power efficiency. If competitors introduce competitive new products into the market before us, our business could be adversely affected. Some competitors may have greater access or rights to companion technologies, including interface, processor and memory technical information. Competitive pressures could adversely impact the demand for our products, which could harm our business.

We have a substantial amount of indebtedness which could adversely affect our financial position and prevent us from implementing our strategy or fulfilling our contractual obligations.

Our debt and capital lease obligations as of March 31, 2012 were \$2 billion, which reflects the debt discount adjustment on our 6.00% Convertible Senior Notes due 2015 (6.00% Notes) and 8.125% Senior Notes due 2017 (8.125% Notes).

Our substantial indebtedness may:

make it difficult for us to satisfy our financial obligations, including making scheduled principal and interest payments;

limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions and general corporate and other purposes;

limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general corporate purposes;

require us to use a substantial portion of our cash flow from operations to make debt service payments;

place us at a competitive disadvantage compared to our less leveraged competitors; and

increase our vulnerability to the impact of adverse economic and industry conditions.

We may not be able to generate sufficient cash to service our debt obligations.

Our ability to make payments on and to refinance our debt will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter, and is subject to prevailing economic conditions and financial, business and other factors, many of which are beyond our control. In August 2012, the remaining outstanding aggregate principal amount of our 5.75% Convertible Senior Notes due 2012 (5.75% Notes) of \$485 million will mature. We cannot assure you that we will be able to generate sufficient cash flow or that we will be able to borrow funds in amounts sufficient to enable us to service our debt or to meet our working capital requirements. If we are not able to generate

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

sufficient cash flow from operations or to borrow sufficient funds to service our debt, we may be required to sell assets or equity, reduce expenditures, refinance all or a portion of our existing debt or obtain additional financing. We cannot assure you that we will be able to refinance our debt, sell assets or equity or borrow more funds on terms acceptable to us, if at all.

Our debt instruments impose restrictions on us that may adversely affect our ability to operate our business.

The indentures governing our 8.125% Notes and 7.75% Senior Notes due 2020 (7.75% Notes) contain various covenants which limit our ability to:

incur additional indebtedness;

pay dividends and make other restricted payments;

make certain investments, including investments in our unrestricted subsidiaries;

create or permit certain liens;

create or permit restrictions on the ability of certain restricted subsidiaries to pay dividends or make other distributions to us;

Table of Contents

use the proceeds from sales of assets;

enter into certain types of transactions with affiliates; and

consolidate or merge or sell our assets as an entirety or substantially as an entirety.

The agreements governing our borrowing arrangements contain cross-default provisions whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. For example, the occurrence of a default with respect to any indebtedness or any failure to repay debt when due in an amount in excess of \$50 million would cause a cross default under the indentures governing our 7.75% Notes, 8.125% Notes, 5.75% Notes and 6.00% Notes. The occurrence of a default under any of these borrowing arrangements would permit the applicable note holders to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable. If the note holders or the trustee under the indentures governing our 7.75% Notes, 8.125% Notes, 5.75% Notes or 6.00% Notes accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings.

In the event of a change of control, we may not be able to repurchase our outstanding debt as required by the applicable indentures, which would result in a default under the indentures.

Upon a change of control, we will be required to offer to repurchase all of the 7.75% Notes and 8.125% Notes then outstanding at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the repurchase date. Moreover, the indentures governing our 5.75% Notes and 6.00% Notes require us to offer to repurchase these securities upon certain change of control events. As of March 31, 2012, the aggregate outstanding principal amount of the outstanding 8.125% Notes, 5.75% Notes, 7.75% Notes and 6.00% Notes was \$2 billion. Future debt agreements may contain similar provisions. We may not have the financial resources to repurchase our indebtedness.

The semiconductor industry is highly cyclical and has experienced severe downturns that has materially adversely affected, and may in the future materially adversely affect, our business.

The semiconductor industry is highly cyclical and has experienced significant downturns, often in conjunction with constant and rapid technological change, wide fluctuations in supply and demand, continuous new product introductions, price erosion and declines in general economic conditions. We have incurred substantial losses in recent downturns, due to:

substantial declines in average selling prices;

the cyclical nature of supply/demand imbalances in the semiconductor industry;

a decline in demand for end-user products (such as PCs) that incorporate our products; and

excess inventory levels in the channels of distribution, including those of our customers.

Global economic uncertainty and weakness have also impacted the semiconductor market as consumers and businesses have deferred purchases, which negatively impacted demand for our products. Recent flooding in Thailand has disrupted and continues to disrupt the supply of hard disk drives. If our customers are unable to obtain sufficient quantities of hard disk drives they need for their systems that include our products and the supply of their products is substantially reduced, then they may postpone or cancel their orders for our products, which could also have a material adverse impact on our business. For example, during the fourth quarter of 2011, we believe the results of our Graphics segment were adversely impacted because some of our customers were impacted by the flooding in Thailand and the disruption in the supply of hard disk drives. Our financial performance has been, and may in the future be, negatively affected by these downturns.

The demand for our products depends in part on the market conditions in the industries and geographies into which they are sold. Fluctuations in demand for our products or a market decline in any of these industries or geographies would have a material adverse effect on our results of operations.

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

Our business is dependent upon the market for desktop and mobile PCs and servers. Over the past three years, form factors have steadily shifted from desktop PCs to mobile PCs, and we expect that this trajectory will continue and extend to include additional form factors like tablets and slates. Historically, a significant portion of our Computing Solutions revenue has been related to desktop PCs. Industry-wide fluctuations in the computer marketplace have materially adversely affected us in the past and may materially adversely affect us in the future. As a result of ongoing macroeconomic challenges affecting the global economy, end-user demand for PCs and servers remains unpredictable.

The growth of our business is also dependent on continued demand for our products from high-growth, emerging global markets. In addition, our ability to be successful in such markets depends in part on our ability to establish adequate local infrastructure, as well as our ability to cultivate and maintain local relationships in these markets. If demand from these markets is below our expectations, sales of our products may decrease, which would have a material adverse effect on us.

Table of Contents

Our operating results are subject to quarterly and seasonal sales patterns.

A substantial portion of our quarterly sales have historically been made in the last month of the quarter. This uneven sales pattern makes prediction of revenues for each financial period difficult and increases the risk of unanticipated variations in quarterly results and financial condition. In addition, our operating results tend to vary seasonally. For example, historically, demand in the retail sector of the PC market is often stronger during the fourth quarter as a result of the winter holiday season and weaker in the first quarter. European sales have also been historically weaker during the summer months. Many of the factors that create and affect seasonal trends are beyond our control.

If essential equipment or materials are not available to manufacture our products, we could be materially adversely affected.

We purchase equipment and materials for our internal back-end manufacturing operations from a number of suppliers and our operations depend upon obtaining deliveries of adequate supplies of equipment and materials on a timely basis. Our third party manufacturing suppliers also depend on the same timely delivery of adequate quantities of equipment and materials in the manufacture of our products. Certain equipment and materials that are used in the manufacture of our products are available only from a limited number of suppliers. We also depend on a limited number of suppliers to provide the majority of certain types of integrated circuit packages for our microprocessors, including APU products. Similarly, certain non-proprietary materials or components such as memory, printed circuit boards (PCBs), substrates and capacitors used in the manufacture of our graphics products are currently available from only a limited number of sources. Because some of the equipment and materials that we and our third party manufacturing suppliers purchase are complex, it is sometimes difficult to substitute one supplier for another.

From time to time, suppliers may extend lead times, limit supply or increase prices due to capacity constraints or other factors. Also, some of these materials and components may be subject to rapid changes in price and availability. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. Dependence on a sole supplier or a limited number of suppliers exacerbates these risks. If we are unable to procure certain of these materials for our back-end manufacturing operations, or our third-party foundries are unable to procure materials for manufacturing our products, our business would be materially adversely affected.

Our issuance to West Coast Hitech L.P. (WCH) of warrants to purchase 35,000,000 shares of our common stock, if and when exercised by WCH, will dilute the ownership interests of our existing stockholders, and the conversion of the remainder of our 5.75% Notes and 6.00% Notes may dilute the ownership interest of our existing stockholders.

The warrants issued to WCH became exercisable in July 2009. Any issuance by us of additional shares to WCH upon exercise of the warrants will dilute the ownership interests of our existing stockholders. Any sales in the public market by WCH of any shares owned by WCH could adversely affect prevailing market prices of our common stock, and the anticipated exercise by WCH of the warrants could depress the price of our common stock.

Moreover, the conversion of our remaining 5.75% Notes and 6.00% Notes may dilute the ownership interests of our existing stockholders. The conversion of the 5.75% Notes and the 6.00% Notes could have a dilutive effect on our earnings per share to the extent that the price of our common stock exceeds the conversion price of the 5.75% Notes and 6.00% Notes. Any sales in the public market of our common stock issuable upon conversion of the 5.75% Notes or 6.00% Notes could adversely affect prevailing market prices of our common stock. In addition, the conversion of the 5.75% Notes into shares of our common stock and 6.00% Notes into cash and shares of our common stock could depress the price of our common stock.

If our products are not compatible with some or all industry-standard software and hardware, we could be materially adversely affected.

Our products may not be fully compatible with some or all industry-standard software and hardware. Further, we may be unsuccessful in correcting any such compatibility problems in a timely manner. If our customers are unable to achieve compatibility with software or hardware after our products are shipped in volume, we could be materially adversely affected. In addition, the mere announcement of an incompatibility problem relating to our products could have a material adverse effect on our business.

Costs related to defective products could have a material adverse effect on us.

Products as complex as those we offer may contain defects or failures when first introduced or when new versions or enhancements to existing products are released. We cannot assure you that, despite our testing procedures, errors will not be found in new products or releases after commencement of commercial shipments in the future, which could result in loss of or delay in market acceptance of our products, material recall and replacement costs, delay in recognition or loss of revenues, writing down the inventory of defective products, the diversion of the attention of our engineering personnel from product development efforts, defending against litigation related to defective products or related

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

property damage or personal injury, and damage to our reputation in the industry and could adversely affect our relationships with our customers. In addition, we may have difficulty identifying the end customers of the

Table of Contents

defective products in the field. As a result, we could incur substantial costs to implement modifications to correct defects. Any of these problems could materially adversely affect our business.

We could be subject to potential product liability claims if one of our products causes, or merely appears to have caused, an injury. Claims may be made by consumers or others selling our products, and we may be subject to claims against us even if an alleged injury is due to the actions of others. A product liability claim, recall or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could have a material adverse effect on our business.

Our receipt of royalty revenues is dependent upon our technology being designed into third-party products and the success of those products.

Our graphics technology is used in game consoles, including the Nintendo Wii and Microsoft Xbox 360. The revenues that we receive from these products are in the form of non-recurring engineering fees charged for design and development services, as well as royalties paid to us by these third parties. Our royalty revenues are directly related to the sales of these products and reflective of their success in the market. If these third parties do not include our graphics technology in future generations of their game consoles, our revenues from royalties would decline significantly. Moreover, we have no control over the marketing efforts of these third parties and we cannot make any assurances that sales of those products will achieve expected levels in the current or future fiscal years. Consequently, the revenues from royalties expected by us from these products may not be fully realized, and our operating results may be adversely affected.

If we fail to maintain the efficiency of our supply chain as we respond to increases or changes in customer demand for our products, our business could be materially adversely affected.

Our ability to meet customer demand for our products depends, in part, on our ability to deliver the products our customers want on a timely basis. Accordingly, we rely on our supply chain for the manufacturing, distribution and fulfillment of our products. As we continue to grow our business, acquire new OEM customers and strengthen relationships with existing OEM customers, the efficiency of our supply chain will become increasingly important because OEMs tend to have specific requirements for particular products, and specific time-frames in which they require delivery of these products. If we are unable to consistently deliver the right products to our customers on a timely basis in the right locations, our customers may reduce the quantities they order from us, which could have a material adverse effect on our business.

We outsource to third parties certain supply-chain logistics functions, including portions of our product distribution, transportation management, and information technology support services.

We rely on third-party providers to operate our regional product distribution centers and to manage the transportation of our work-in-process and finished products among our facilities, our manufacturing suppliers and to our customers. In addition, we rely on third parties to provide certain information technology services to us, including helpdesk support, desktop application services, business and software support applications, server and storage administration, data center operations, database administration, and voice, video and remote access. We cannot guarantee that these providers will fulfill their respective responsibilities in a timely manner in accordance with the contract terms, in which case our internal operations and the distribution of our products to our customers could be materially adversely affected. Also, we cannot guarantee that our contracts with these third-party providers will be renewed, in which case we would have to transition these functions in-house or secure new providers, which could have a material adverse effect on our business if the transition is not executed appropriately.

We may be subject to disruptions or failures in our information technology systems and network infrastructures that could have a material adverse effect on us.

We maintain and rely extensively on information technology systems and network infrastructures for the effective operation of our business. We also hold large amounts of data in various data center facilities around the world which our business depends upon. A disruption, infiltration or failure of our information technology systems or any of our data centers as a result of software or hardware malfunctions, computer viruses, cyber attacks, employee theft or misuse, power disruptions, natural disasters or accidents could cause breaches of data security and loss of critical data, which in turn could materially adversely affect our business. Our security procedures, such as virus protection software and our business continuity planning, such as our disaster recovery policies and back-up systems, may not be adequate or implemented properly to fully address the adverse effect of such events, which could adversely impact our operations. In addition, our business could be adversely affected to the extent we do not make the appropriate level of investment in our technology systems as our technology systems become out-of-date or obsolete and are not able to deliver the type of data integrity and reporting we need to run our business. Furthermore, when we implement new systems and or upgrade existing systems, we could be faced with temporary or prolonged disruptions that could adversely affect our business.

Table of Contents

Uncertainties involving the ordering and shipment of our products could materially adversely affect us.

We typically sell our products pursuant to individual purchase orders. We generally do not have long-term supply arrangements with our customers or minimum purchase requirements except that orders generally must be for standard pack quantities. Generally, our customers may cancel orders more than 30 days prior to shipment without incurring significant fees. We base our inventory levels on customers' estimates of demand for their products, which may not accurately predict the quantity or type of our products that our customers will want in the future or ultimately end up purchasing. Our ability to forecast demand is even further complicated when we sell indirectly through distributors, as our forecasts for demand are then based on estimates provided by multiple parties. Moreover, PC and consumer markets are characterized by short product lifecycles, which can lead to rapid obsolescence and price erosion. In addition, our customers may change their inventory practices on short notice for any reason. We may build inventories during periods of anticipated growth, and the cancellation or deferral of product orders or overproduction due to failure of anticipated orders to materialize, could result in excess or obsolete inventory, which could result in write-downs of inventory and an adverse effect on gross margins. Factors that may result in excess or obsolete inventory, which could result in write-downs of the value of our inventory, a reduction in the average selling price, and/or a reduction in our gross margin include:

a sudden and significant decrease in demand for our products;

a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements;

a failure to accurately estimate customer demand for our older products as our new products are introduced; or

our competitors taking aggressive pricing actions.

Because market conditions are uncertain, these and other factors could materially adversely affect our business.

Our reliance on third-party distributors and add-in-board partners subjects us to certain risks.

We market and sell our products directly and through third-party distributors and AIB partners pursuant to agreements that can generally be terminated for convenience by either party upon prior notice to the other party. These agreements are non-exclusive and permit both our distributors and AIBs to offer our competitors' products. We are dependent on our distributors and AIBs to supplement our direct marketing and sales efforts. If any significant distributor or AIB or a substantial number of our distributors or AIBs terminated their relationship with us or decided to market our competitors' products over our products, our ability to bring our products to market would be impacted and we would be materially adversely affected.

Additionally, distributors and AIBs typically maintain an inventory of our products. In most instances, our agreements with distributors protect their inventory of our products against price reductions, as well as provide return rights for any product that we have removed from our price book and that is not more than twelve months older than the manufacturing code date. Some agreements with our distributors also contain standard stock rotation provisions permitting limited levels of product returns. Our agreements with AIBs protect their inventory of our products against price reductions. We defer the gross margins on our sales to distributors and AIBs, resulting from both our deferral of revenue and related product costs, until the applicable products are re-sold by the distributors or the AIBs. However, in the event of a significant decline in the price of our products, the price protection rights we offer would materially adversely affect us because our revenue and corresponding gross margin would decline.

Our worldwide operations are subject to political and economic risks and natural disasters, which could have a material adverse effect on us.

We maintain operations around the world, including in the United States, Canada, Europe and Asia. We rely on third party wafer foundries in Europe and Asia. Nearly all product assembly and final testing of our products is performed at manufacturing facilities, operated by us as well as third party manufacturing facilities, in China, Malaysia, Singapore and Taiwan. We also have international sales operations. International sales, as a percent of net revenue were 93% in the first quarter of 2012. We expect that international sales will continue to be a significant portion of total sales in the foreseeable future.

The political and economic risks associated with our operations in foreign countries include, without limitation:

expropriation;

changes in a specific country's or region's political or economic conditions;

changes in tax laws, trade protection measures and import or export licensing requirements;

difficulties in protecting our intellectual property;

difficulties in managing staffing and exposure to different employment practices and labor laws;

changes in foreign currency exchange rates;

restrictions on transfers of funds and other assets of our subsidiaries between jurisdictions;

changes in freight and interest rates;

Table of Contents

disruption in air transportation between the United States and our overseas facilities;

loss or modification of exemptions for taxes and tariffs; and

compliance with U.S. laws and regulations related to international operations, including export control regulations and the Foreign Corrupt Practices Act.

In addition, our worldwide operations could be subject to natural disasters such as earthquakes, tsunamis, flooding, typhoons and volcanic eruptions that disrupt manufacturing or other operations. For example, our Sunnyvale operations are located near major earthquake fault lines in California. Any conflict or uncertainty in the countries in which we operate, including public health or safety, natural disasters, fire, disruptions of service from utilities, nuclear power plant accidents, or general economic or political factors, could have a material adverse effect on our business. For example, flooding in Thailand has disrupted and continues to disrupt the supply of hard disk drives. Some of our customers have been unable to obtain sufficient quantities of hard disk drives. As a result, we believe during the fourth quarter of 2011, they postponed or canceled their orders for our GPU products. Any of the above risks, should they occur, could result in an increase in the cost of components, production delays, general business interruptions, delays from difficulties in obtaining export licenses for certain technology, tariffs and other barriers and restrictions, potentially longer payment cycles, potentially increased taxes, restrictions on the repatriation of funds and the burdens of complying with a variety of foreign laws, any of which could ultimately have a material adverse effect on our business.

Worldwide economic and political conditions may adversely affect demand for our products.

Continued uncertainty over the worldwide economic environment may adversely impact consumer confidence and spending, causing our customers to postpone purchases. Moreover, political conditions may create uncertainties that could adversely affect our business. The United States has been and may continue to be involved in armed conflicts that could have a further impact on our sales and our supply chain. The consequences of armed conflict, political instability or civil or military unrest are unpredictable and we may not be able to foresee events that could have a material adverse effect on us. Also, the occurrence and threat of terrorist attacks have in the past, and may in the future, adversely affect demand for our products. Terrorist attacks or other hostile acts may negatively affect our operations, directly or indirectly, and such attacks or related armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks or hostile acts may make travel and the transportation of our products more difficult and more expensive, which could materially adversely affect us. Any of these events could cause consumer spending to decrease or result in increased volatility in the United States economy and worldwide financial markets.

Unfavorable currency exchange rate fluctuations could continue to adversely affect us.

We have costs, assets and liabilities that are denominated in foreign currencies, primarily the Canadian dollar. As a consequence, movements in exchange rates could cause our foreign currency denominated expenses to increase as a percentage of revenue, affecting our profitability and cash flows. Whenever we believe appropriate, we hedge a portion of our short-term foreign currency exposure to protect against fluctuations in currency exchange rates. We determine our total foreign currency exposure using projections of long-term expenditures for items such as payroll. We cannot assure you that these activities will be effective in reducing foreign exchange rate exposure. Failure to do so could have an adverse effect on our business, financial condition, results of operations and cash flow. In addition, the majority of our product sales are denominated in U.S. dollars. Fluctuations in the exchange rate between the U.S. dollar and the local currency can cause increases or decreases in the cost of our products in the local currency of such customers. An appreciation of the U.S. dollar relative to the local currency could reduce sales of our products.

Our inability to effectively control the sales of our products on the gray market could have a material adverse effect on us.

We market and sell our products directly to OEMs and through authorized third-party distributors. From time to time, our products are diverted from our authorized distribution channels and are sold on the gray market. Gray market products result in shadow inventory that is not visible to us, thus making it difficult to forecast demand accurately. Also, when gray market products enter the market, we and our distribution channel compete with these heavily discounted gray market products, which adversely affects demand for our products and negatively impact our margins. In addition, our inability to control gray market activities could result in customer satisfaction issues because any time products are purchased outside our authorized distribution channel there is a risk that our customers are buying counterfeit or substandard products, including products that may have been altered, mishandled or damaged, or are used products represented as new.

If we cannot adequately protect our technology or other intellectual property in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures, we may lose a competitive advantage and incur significant expenses.

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

We rely on a combination of protections provided by contracts, including confidentiality and nondisclosure agreements, copyrights, patents, trademarks and common law rights, such as trade secrets, to protect our intellectual property. However, we cannot assure you that we will be able to adequately protect our technology or other intellectual property from third-party infringement or from misappropriation in the United States and abroad. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted there under may not provide a competitive advantage to us. Furthermore, patent applications that we

Table of Contents

file may not result in issuance of a patent or, if a patent is issued, the patent may not be issued in a form that is advantageous to us. Despite our efforts to protect our intellectual property rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to monitor compliance with, and enforce, our intellectual property on a worldwide basis in a cost-effective manner. In jurisdictions where foreign laws provide less intellectual property protection than afforded in the United States and abroad, our technology or other intellectual property may be compromised, and our business would be materially adversely affected.

We are party to litigation and may become a party to other claims or litigation that could cause us to incur substantial costs or pay substantial damages or prohibit us from selling our products.

From time to time, we are a defendant or plaintiff in various legal actions. We also sell products to consumers, which could increase our exposure to consumer actions such as product liability claims. On occasion, we receive claims that individuals were allegedly exposed to substances used in our former semiconductor wafer manufacturing facilities and that this alleged exposure caused harm. Litigation can involve complex factual and legal questions, and its outcome is uncertain. Any claim that is successfully asserted against us may result in the payment of damages that could be material to our business.

With respect to intellectual property litigation, from time to time, we have been notified, or third parties may bring or have brought actions against us, based on allegations that we are infringing the intellectual property rights of others. If any such claims are asserted against us, we may seek to obtain a license under the third parties' intellectual property rights. We cannot assure you that we will be able to obtain all of the necessary licenses on satisfactory terms, if at all. In the event that we do not obtain a license, these parties may file lawsuits against us seeking damages (potentially up to and including treble damages) or an injunction against the sale of our products that incorporate allegedly infringed intellectual property or against the operation of our business as presently conducted, which could result in our having to stop the sale of some of our products or to increase the costs of selling some of our products or which could damage our reputation. The award of damages, including material royalty payments, or the entry of an injunction against the manufacture and sale of some or all of our products, would have a material adverse effect on us. We could decide, in the alternative, to redesign our products or to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time-consuming regardless of their merit, could cause delays in product release or shipment, and/or could have a material adverse effect on us. We cannot assure you that litigation related to our intellectual property rights or the intellectual property rights of others can always be avoided or successfully concluded.

Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations, which could have a material adverse effect on us.

Failures in the global credit markets have impacted and may continue to impact the liquidity of our auction rate securities.

As of March 31, 2012, the par value of all our auction rate securities, or ARS, was \$37 million with an estimated fair value of \$32 million. As of March 31, 2012, our investments in ARS included estimated fair values of approximately \$13 million of student loan ARS and \$19 million of municipal and corporate ARS. The uncertainties in the credit markets have affected all of our ARS and auctions for these securities have failed to settle on their respective settlement dates since February 2008. The auctions failed because there was insufficient demand for these securities. A failed auction does not represent a default by the issuer of the ARS. For each unsuccessful auction, the interest rate is reset based on a formula set forth in each security, which is generally higher than the current market unless subject to an interest rate cap. When auctions for these securities fail, the investments may not be readily convertible to cash until a future auction of these investments is successful, a buyer is found outside of the auction process, the issuers of the ARS establish a different form of financing to replace these securities or redeem them, or final payment is due according to contractual maturities (currently, ranging from 2030 to 2050 for our ARS). Although we have had redemptions since the failed auctions began, the liquidity of these investments continues to be adversely impacted.

If market illiquidity worsens, we may be required to record additional impairment charges with respect to these investments in the future, which could adversely impact our results of operations.

The conflict minerals-related provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act as well as a variety of environmental laws that we are subject to could result in additional costs and liabilities.

Our operations and properties have in the past and continue to be subject to various United States and foreign environmental laws and regulations, including those relating to materials used in our products and manufacturing processes, discharge of pollutants into the environment, the treatment, transport, storage and disposal of solid and hazardous wastes, and remediation of contamination. These laws and regulations require us to obtain permits for our operations, including the discharge of air pollutants and wastewater. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with any of them, a range of consequences could result, including fines, suspension of

Edgar Filing: ADVANCED MICRO DEVICES INC - Form 10-Q

production, alteration of manufacturing processes, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions. We could also be held liable for any and all consequences arising out

Table of Contents

of exposure to hazardous materials used, stored, released, disposed of by us or located at, under or emanating from our facilities or other environmental or natural resource damage.

Certain environmental laws, including the U.S. Comprehensive, Environmental Response, Compensation and Liability Act of 1980, or the Superfund Act, impose strict, or under certain circumstances, joint and several liability on current and previous owners or operators of real property for the cost of removal or remediation of hazardous substances and impose liability for damages to natural resources. These laws often impose liability even if the owner or operator did not know of, or was not responsible for, the release of such hazardous substances. These environmental laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated. Such persons can be responsible for cleanup costs even if they never owned or operated the contaminated facility. We have been named as a responsible party at three Superfund sites in Sunnyvale, California. Although we have not yet been, we could be named a potentially responsible party at other Superfund or contaminated sites in the future. In addition, contamination that has not yet been identified could exist at our other facilities.

Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the European Union (EU) and China are two among a growing number of jurisdictions that have enacted restrictions on the use of lead and other materials in electronic products. Other countries have also implemented similar restrictions. These regulations affect semiconductor devices and packaging. As regulations restricting materials in electronic products continue increase around the world, there is a risk that the cost, quality and manufacturing yields of products that are subject to these restrictions, may be less favorable compared to products that are not subject to such restrictions, or that the transition to compliant products may produce sudden changes in demand, which may result in excess inventory.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the SEC to establish new disclosure and reporting requirements for those companies who use conflict minerals mined from the Democratic Republic of Congo and adjoining countries in their products, whether or not these products are manufactured by third parties. When these new requirements are implemented, they could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices, and there will be additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Also, since our supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins of the subject minerals. Moreover, we may encounter challenges to satisfy those customers who require that all of the components of our products are certified as conflict free.

A number of jurisdictions including the EU, Australia and China are developing or finalizing market entry or public procurement requirements for computers and servers based on ENERGY STAR specification as well as additional energy consumption limits. Some of these regulations are expected to be approved and implemented by the end of 2012. If such requirements are implemented in the proposed time frame and do not contain recommended modifications as proposed by industry associations, there is the potential for certain of our microprocessor, chipset and GPU products, as incorporated in desktop and mobile PCs, workstations, servers and other information and communications technology products being excluded from these markets which could materially adversely affect us. While we have budgeted for foreseeable associated expenditures, we cannot assure you that future environmental legal requirements will not become more stringent or costly in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past and future releases of, or exposure to, hazardous substances will not have a material adverse effect on us.

Our business is subject to potential tax liabilities.

We are subject to income taxes in the United States, Canada and other foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, we cannot assure you that the final determination of any tax audits and litigation will not be materially different from that which is reflected in historical income tax provisions and accruals. Should additional taxes be assessed as a result of an audit or litigation, there could be a material adverse effect on our cash, income tax provision and net income in the period or periods for which that determination is made.

Table of Contents

ITEM 6. EXHIBITS

10.1***	Wafer Supply Agreement Amendment No. 2 among AMD, GLOBALFOUNDRIES Inc., GLOBALFOUNDRIES U.S. Inc., Advanced Technology Investment Company LLC, and ATIC International Investment Company LLC dated as of March 4, 2012.
10.2*	AMD Outside Director Equity Compensation Policy.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contracts and compensatory plans or arrangements.

*** Portions of this Exhibit have been omitted pursuant to a request for confidential treatment. These portions have been filed separately with the Securities and Exchange Commission.

Table of Contents

SIGNATURE

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

ADVANCED MICRO DEVICES, INC.

Date: May 9, 2012

By: */s/* THOMAS J. SEIFERT
Thomas J. Seifert
Senior Vice President and Chief Financial Officer

**Signing on behalf of the registrant and as the principal financial and
accounting officer**