

ADVANCED MICRO DEVICES INC

Form 10-Q

May 01, 2014

[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 29, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-07882

**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 April 28, 2014: 762,041,883

**Table of Contents**

**INDEX**

	<b>Page No.</b>
<b><u>Part I Financial Information</u></b>	
Item 1	3
<u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Operations – Quarters Ended March 29, 2014 and March 30, 2013</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Quarters Ended March 29, 2014 and March 30, 2013</u>	4
<u>Condensed Consolidated Balance Sheets – March 29, 2014 and December 28, 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows – Three Months Ended March 29, 2014 and March 30, 2013</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2	18
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3	31
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
Item 4	32
<u>Controls and Procedures</u>	
<b><u>Part II Other Information</u></b>	
Item 1	33
<u>Legal Proceedings</u>	
Item 1A	33
<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 29, 2014	March 30, 2013
	(In millions, except per share amounts)	
Net revenue	\$ 1,397	\$ 1,088
Cost of sales	910	643
Gross margin	487	445
Research and development	279	312
Marketing, general and administrative	156	179
Amortization of acquired intangible assets	3	5
Restructuring and other special charges, net		47
Operating income (loss)	49	(98)
Interest income	1	1
Interest expense	(47)	(44)
Other expense, net	(21)	(3)
Loss before income taxes	(18)	(144)
Provision for income taxes	2	2
Net loss	\$ (20)	\$ (146)
Net loss per share		
Basic	\$ (0.03)	\$ (0.19)
Diluted	\$ (0.03)	\$ (0.19)
Shares used in per share calculation:		
Basic	761	749
Diluted	761	749

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****Advanced Micro Devices, Inc.****Condensed Consolidated Statements of Comprehensive Income (Loss)****(Unaudited)**

	<b>Quarter Ended</b>	
	<b>March 29, 2014</b>	<b>March 30, 2013</b>
	<b>(In millions)</b>	
Net loss	\$ (20)	\$ (146)
Other comprehensive income (loss):		
Unrealized gains (losses) on cash flow hedges:		
Unrealized losses arising during the period, net of tax effects of \$0 and \$(1)	(3)	(1)
Reclassification adjustment for losses realized and included in net loss, net of tax effects of zero	2	
Total other comprehensive loss	(1)	(1)
Total comprehensive loss	\$ (21)	\$ (147)

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

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

	March 29, 2014	December 28, 2013*
	(In millions, except par value amounts)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 554	\$ 869
Marketable securities	348	228
Accounts receivable, net of allowances of \$0 and \$0	840	832
Inventories, net	869	884
Prepaid expenses and other current assets	79	71
<b>Total current assets</b>	2,690	2,884
Long-term marketable securities	80	90
Property, plant and equipment, net	337	346
Acquisition related intangible assets, net	75	78
Goodwill	553	553
Other assets	373	386
<b>Total assets</b>	\$ 4,108	\$ 4,337
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt	\$ 60	\$ 60
Accounts payable	483	519
Payable to GLOBALFOUNDRIES	213	364
Accrued and other current liabilities	482	530
Deferred income on shipments to distributors	146	145
<b>Total current liabilities</b>	1,384	1,618
Long-term debt	2,078	1,998
Other long-term liabilities	135	177
Commitments and contingencies (See Note 10)		
<b>Stockholders equity:</b>		
Capital stock:		
Common stock, par value \$0.01; 1,500 shares authorized on March 29, 2014 and December 28, 2013; shares issued: 772 shares on March 29, 2014 and 735 shares on December 28, 2013; shares outstanding: 762 shares on March 29, 2014 and 725 shares on December 28, 2013	8	7
Additional paid-in capital	6,883	6,894
Treasury stock, at cost (10 shares on March 29, 2014 and December 28, 2013)	(114)	(112)
Accumulated deficit	(6,263)	(6,243)
Accumulated other comprehensive loss	(3)	(2)
<b>Total stockholders equity</b>	511	544
<b>Total liabilities and stockholders equity</b>	\$ 4,108	\$ 4,337

\* Amounts were derived from the December 28, 2013 audited consolidated financial statements.  
See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>March 29, 2014</b>	<b>March 30, 2013</b>
	<b>(In millions)</b>	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (20)	\$ (146)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	53	66
Net loss on disposals of property, plant and equipment		48
Deferred income taxes		1
Stock-based compensation expense	23	24
Non-cash interest expense	6	6
Loss on debt redemptions	15	
Other	(4)	(1)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(8)	(14)
Inventories	14	(52)
Prepaid expenses and other assets	(8)	(1)
Payable to GLOBALFOUNDRIES	(151)	(74)
Accounts payable, accrued liabilities and other	(124)	(12)
<b>Net cash used in operating activities</b>	<b>(204)</b>	<b>(155)</b>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(310)	(361)
Purchases of property, plant and equipment	(21)	(20)
Proceeds from sales and maturities of available-for-sale securities	200	250
Proceeds from sale of property, plant and equipment		178
<b>Net cash provided by (used in) investing activities</b>	<b>(131)</b>	<b>47</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	1	1
Proceeds from borrowings, net	589	
Repayments of long-term debt and capital lease obligations	(569)	(1)
Other	(1)	
<b>Net cash provided by financing activities</b>	<b>20</b>	
<b>Net decrease in cash and cash equivalents</b>	<b>(315)</b>	<b>(108)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>869</b>	<b>549</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 554</b>	<b>\$ 441</b>

See accompanying notes to condensed consolidated financial statements.





---

**Table of Contents**

**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 March 29, 2014 shown in this report are not necessarily indicative of results to be expected for the full year ending December 27, 2014. 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 28, 2013.

The Company uses a 52 or 53 week fiscal year ending on the last Saturday in December. The quarters ended March 29, 2014 and March 30, 2013 each consisted of 13 weeks.

*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).

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

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

The Company's total purchases from GF related to wafer manufacturing and research and development activities in the first quarter of 2014 and the first quarter of 2013 were \$260 million and \$269 million, respectively.

The Company currently estimates that its wafer purchase obligation from GF under the fourth amendment to the WSA will be \$1.2 billion for the 2014 calendar year. The Company is not able to meaningfully quantify or estimate its purchase obligations to GF beyond December 31, 2014, but it expects that its future purchases from GF will continue to be material.

GF is a related party of the Company because GF is affiliated with West Coast Hitech L.P. (WCH), the Company's largest stockholder.

**NOTE 3. Debt**

***6.75% Senior Notes Due 2019***

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

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

At any time (which may be more than once) before March 1, 2017, the Company may redeem up to 35% of the aggregate principal amount of the 6.75% Notes within 90 days of the closing of an equity offering with the net proceeds thereof at a

## **Table of Contents**

redemption price not greater than 106.75% of the principal amount thereof, together with accrued and unpaid interest to but excluding the date of redemption. At any time (which may be more than once) before March 1, 2019, the Company may redeem some or all of the 6.75% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a *make whole* premium (as set forth in the 6.75% Indenture).

Holders have the right to require the Company to repurchase all or a portion of its 6.75% Notes in the event that the Company undergoes a change of control, as defined in the 6.75% Indenture, at a repurchase price of 101% of the principal amount plus accrued and unpaid interest. Additionally, an event of default (as defined in the 6.75% Indenture) may result in the acceleration of the maturity of the 6.75% Notes.

The 6.75% Indenture contains certain covenants that limit, among other things, the Company's ability and the ability of its subsidiaries, to:

incur additional indebtedness, except specified permitted debt;

pay dividends and make other restricted payments;

make certain investments if an event of a default exists, or if specified financial conditions are not satisfied;

create or permit certain liens;

create or permit restrictions on the ability of its subsidiaries to pay dividends or make other distributions to the Company;

use the proceeds from sales of assets;

enter into certain types of transactions with affiliates; and

consolidate, merge or sell its assets as entirety or substantially as an entirety.

The 6.75% Notes rank equally with the Company's existing and future senior debt and are senior to all of the Company's future subordinated debt. The 6.75% Notes rank junior to all of the Company's future senior secured debt to the extent of the collateral securing such debt and are structurally subordinated to all existing and future debt and liabilities of the Company's subsidiaries.

The Company may elect to purchase or otherwise retire the 6.75% 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 the Company believes the market conditions are favorable to do so.

### ***6.00% Convertible Senior Notes Due 2015***

During the first quarter of 2014, the Company repurchased \$64 million in aggregate principal amount of its 6.00% Convertible Senior Notes Due 2015 (6.00% Notes) in open market transactions for \$69 million, which included payment of accrued and unpaid interest of \$1 million. Also, during the first quarter of 2014, the Company repurchased a portion of its 6.00% Notes through a partial tender offer. The Company repurchased \$423 million aggregate principal amount of the 6.00% Notes for \$460 million in cash, which included payment of accrued and unpaid interest of \$10 million. The Company incurred a total loss of \$10 million in connection with the foregoing repurchases of the 6.00% Notes. As of March 29, 2014, the outstanding aggregate principal amount of the 6.00% Notes was \$42 million and the remaining carrying value was \$41 million, net of a debt discount of \$1 million.

### ***8.125% Senior Notes Due 2017***

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

During the first quarter of 2014, the Company repurchased \$48 million in aggregate principal amount of its 8.125% Senior Notes Due 2017 (8.125% Notes) pursuant to a partial tender offer for \$51 million, which included payment of accrued and unpaid interest of \$1 million. The Company incurred a total loss of \$5 million in connection with the foregoing repurchase of the 8.125% Notes. As of March 29, 2014, the outstanding aggregate principal amount of the 8.125% Notes was \$452 million and the remaining carrying value was \$427 million, net of a debt discount of \$25 million.

The agreements governing the Company's 6.00% Notes, 8.125% Notes, 6.75% Notes, 7.75% Senior Notes due 2020 and 7.50% Senior Notes due 2022 and the Company's senior secured asset based line of credit for a principal amount of up to \$500 million (Secured Revolving Line of Credit) contain cross-default provisions whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. The occurrence of a default under any of these borrowing arrangements would permit the applicable note holders or the lenders under the Secured Revolving Line of Credit to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable.

**Table of Contents****NOTE 4. Supplemental Balance Sheet Information***Inventories*

	March 29, 2014	December 28, 2013
	(In millions)	
Raw materials	\$ 29	\$ 30
Work in process	650	727
Finished goods	190	127
Total inventories, net	\$ 869	\$ 884

*Property, Plant and Equipment*

	March 29, 2014	December 28, 2013
	(In millions)	
Land and land improvements	\$ 4	\$ 3
Buildings and leasehold improvements	252	246
Equipment	1,446	1,466
Construction in progress	23	18
	1,725	1,733
Accumulated depreciation and amortization	(1,388)	(1,387)
Total property, plant and equipment, net	\$ 337	\$ 346

*Other Assets*

	March 29, 2014	December 28, 2013
	(In millions)	
Software technology and licenses	\$ 260	\$ 280
Other	113	106
Total other assets	\$ 373	\$ 386

*Accrued and Other Current Liabilities*

	March 29, 2014	December 28, 2013
	(In millions)	
Accrued compensation and benefits	\$ 128	\$ 186

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

Marketing programs and advertising expenses	143	150
Software technology and licenses payable	56	27
Other accrued and current liabilities	155	167
<b>Total accrued and other current liabilities</b>	<b>\$ 482</b>	<b>\$ 530</b>

**Table of Contents****NOTE 5. 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 a warrant issued by the Company to WCH, in connection with the GF transaction in 2009. On March 7, 2014, the Company issued 34,906,166 shares of common stock pursuant to the cashless exercise in full by WCH of its warrant to purchase up to 35,000,000 shares of the Company's common stock at an exercise price of \$0.01 per share. As a result, the warrant is no longer outstanding. The issuance of the common stock did not have any effect on basic and dilutive earnings per share amounts because the full 35,000,000 shares of common stock issuable to WCH had already been included in the denominator for calculating basic and dilutive earnings per share for all periods presented.

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 and restricted stock units.

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

	Quarter Ended	
	March 29, 2014	March 30, 2013
	(In millions, except per share amounts)	
Numerator Net loss:		
Numerator for basic and diluted net loss per share	\$ (20)	\$ (146)
Denominator Weighted average shares		
Denominator for basic and diluted net loss per share	761	749
Net loss per share:		
Basic	\$ (0.03)	\$ (0.19)
Diluted	\$ (0.03)	\$ (0.19)

Potential shares from employee stock options, restricted stock and restricted stock units totaling 45 million were not included in the net loss per share calculation for the first quarter of 2014 because their inclusion would have been anti-dilutive.

Potential shares from employee stock options, restricted stock and restricted stock units totaling 56 million were not included in the net loss per share calculation for the first quarter of 2013 because their inclusion would have been anti-dilutive.



**Table of Contents****NOTE 6. Financial Instruments*****Cash, Cash Equivalents and Marketable Securities***

Financial instruments measured and recorded at fair value on a recurring basis as of March 29, 2014 and December 28, 2013 are summarized below:

	Total Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
(In millions)				
<b>March 29, 2014</b>				
Cash	\$ 285	\$ 285	\$	\$
Level 1 <sup>(1)(2)</sup>				
Money market funds	\$ 18	\$ 14	\$	\$ 4
<b>Total level 1</b>	<b>\$ 18</b>	<b>\$ 14</b>	<b>\$</b>	<b>\$ 4</b>
Level 2 <sup>(2)(3)</sup>				
Commercial paper	\$ 603	\$ 255	\$ 348	\$
Corporate bonds	76			76
<b>Total level 2</b>	<b>\$ 679</b>	<b>\$ 255</b>	<b>\$ 348</b>	<b>\$ 76</b>
<b>Total</b>	<b>\$ 982</b>	<b>\$ 554</b>	<b>\$ 348</b>	<b>\$ 80</b>
	Total Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
(In millions)				
<b>December 28, 2013</b>				
Cash	\$ 429	\$ 429	\$	\$
Level 1 <sup>(1)(2)</sup>				
Money market funds	\$ 21	\$ 19	\$	\$ 2
<b>Total level 1</b>	<b>\$ 21</b>	<b>\$ 19</b>	<b>\$</b>	<b>\$ 2</b>
Level 2 <sup>(2)(3)</sup>				
Commercial paper	\$ 599	\$ 421	\$ 178	\$
Time deposit	50		50	
Corporate bonds	88			88
<b>Total level 2</b>	<b>\$ 737</b>	<b>\$ 421</b>	<b>\$ 228</b>	<b>\$ 88</b>
<b>Total</b>	<b>\$ 1,187</b>	<b>\$ 869</b>	<b>\$ 228</b>	<b>\$ 90</b>

The Company's Level 1 assets are valued using quoted prices for identical instruments in active markets.

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

(1) The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during the quarter ended March 29, 2014 or the year ended December 28, 2013.

(2)

(3) 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 that 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 service, other than that utilized by the brokers, that use a similar technique as the brokers to derive pricing as described above.

Available-for-sale securities held by the Company as of March 29, 2014 and December 28, 2013 consisted of money market funds, commercial paper, time deposits, corporate bonds and mutual funds. The amortized cost of available-for-sale securities approximates the fair value for all periods presented.

In addition to those amounts presented above, at March 29, 2014 and December 28, 2013, the Company had \$18 million of available-for-sale investments in money market funds used as collateral for leased buildings and letters of credit deposits,

**Table of Contents**

which were included in Other Assets on the Company's condensed consolidated balance sheets. These money market funds are classified within Level 1 because they are valued using quoted prices for identical instruments in active markets. Their amortized cost are the same as the fair value for all periods presented. The Company is restricted from accessing these deposits.

Also in addition to those amounts presented above, at March 29, 2014 and December 28, 2013, the Company had \$13 million and \$14 million, respectively, of available-for-sale investments in mutual funds held in a Rabbi trust established for the Company's deferred compensation plan, which were included in Other Assets on the Company's condensed consolidated balance sheets. These mutual funds are classified within Level 1 because they are valued using quoted prices for identical instruments in active markets. Their amortized cost approximates the fair value for all periods presented. The Company is restricted from accessing these investments.

There were no sales of available-for-sale securities during the quarter ended March 29, 2014.

At March 29, 2014 and December 28, 2013, \$80 million and \$90 million, respectively, of investments were classified as long-term marketable securities. The Company's intent is to hold such investments for greater than one year, and the Company does not intend to use them in current operations. As a result of narrowing investment yields, the Company will continue to re-evaluate its investment strategy related to amounts designated as long-term as such investments mature.

All contractual maturities of the Company's available-for-sale marketable debt securities as of March 29, 2014 were within one year, except those for certain long-term marketable securities. The Company's long-term marketable securities currently consist of corporate bonds and money market funds. The corporate bonds have maximum stated maturities of two years, and the Company intends to invest the money market funds into corporate bonds with maturities greater than one year. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

*Financial Instruments Not Recorded at Fair Value on a Recurring Basis.* The Company carries its financial instruments at fair value with the exception of its debt. 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 29, 2014		December 28, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In millions)			
Short-term debt (excluding capital leases)	\$ 55	\$ 55	\$ 55	\$ 55
Long-term debt (excluding capital leases)	\$ 2,068	\$ 2,132	\$ 1,986	\$ 2,132

The fair value of the Company's short-term and long-term debt that are 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.

**Table of Contents*****Hedging Transactions and Derivative Financial Instruments***

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

	Quarter Ended	
	March 29, 2014	March 30, 2013
	(In millions)	
<b>Foreign Currency Forward Contracts</b>		
Contracts designated as cash flow hedging instruments		
Other comprehensive loss	\$ (1)	\$ (2)
Research and development	(1)	
Marketing, general and administrative	(1)	
Contracts not designated as hedging instruments		
Other expense, net	\$ (1)	\$ (1)

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 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 and other current liabilities should these contracts be in a loss position. These amounts were recorded in the condensed consolidated balance sheet as follows:

	March 29, 2014	December 28, 2013
	(In millions)	
<b>Foreign Currency Forward Contracts</b>		
Contracts designated as cash flow hedging instruments	\$ (4)	\$ (3)
Contracts not designated as hedging instruments	\$	\$ (1)

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 29, 2014 and December 28, 2013, the notional values of the Company's outstanding foreign currency forward contracts were \$118 million and \$124 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 29, 2014, the Company's outstanding contracts were in a net loss position of \$4 million. The Company is required to post collateral should the derivative contracts be in a net loss position exceeding certain thresholds. As of March 29, 2014, the Company was not required to post any collateral.

**NOTE 7. Income Taxes**

In the first quarter of 2014, the Company recorded an income tax provision of \$2 million due to foreign taxes in profitable locations.

In the first quarter of 2013, the Company recorded an income tax provision of \$2 million due to \$2 million of foreign taxes in profitable locations and \$1 million related to the reversal of previously recognized tax benefits associated with other comprehensive income, partially offset by \$1 million of tax benefits from Canadian co-op credits and the monetization of U.S. tax credits.

As of March 29, 2014, 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, at March 29, 2014, in management's estimate, is not more likely than not to be achieved.

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

The Company's gross unrecognized tax benefits increased by \$1 million during the first quarter of 2014 due to an increase in Canadian tax credits. The total gross unrecognized tax benefits as of March 29, 2014 were \$53 million. As of March 29, 2014, the Company recognized \$2 million of previously unrecognized tax benefits available to offset \$2 million of tax liabilities. There were no material changes to accrued interest or penalties in the first quarter of 2014.

**Table of Contents**

The Company currently expects to reduce its unrecognized tax benefits by \$31 million primarily as a result of the potential settlement of tax audits with certain foreign tax authorities over the next 12 months. The Company does not believe it is reasonably possible that other unrecognized tax benefits will materially change in the next 12 months. However, the settlement, resolution or closure of tax audits are highly uncertain.

**NOTE 8. 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), net, 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 segments:

the Computing Solutions segment, which primarily includes x86 microprocessors, as standalone devices or as incorporated as an accelerated processing unit (APU), chipsets, embedded processors and dense servers; and

the Graphics and Visual Solutions segment, which primarily includes graphics processing units (GPU), including professional graphics, semi-custom System-on-Chip (SOC) products, development services and technology for game consoles.

In addition to these reportable segments, the Company has an All Other category, which is not a reportable segment. This category primarily includes certain expenses and credits that are not allocated to any of the 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, employee stock-based compensation expense, net restructuring and other special charges and workforce rebalancing severance charges. The Company also reported the results of former businesses in the All Other category because the operating results were not material.

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

	<b>Quarter Ended</b>	
	<b>March 29, 2014</b>	<b>March 30, 2013</b>
	<b>(In millions)</b>	
<b>Net revenue:</b>		
Computing Solutions	\$ 663	\$ 751
Graphics and Visual Solutions	734	337
<b>Total net revenue</b>	<b>\$ 1,397</b>	<b>\$ 1,088</b>
<b>Operating income (loss):</b>		
Computing Solutions	\$ (3)	\$ (39)
Graphics and Visual Solutions	91	16
All Other	(39)	(75)
<b>Total operating income (loss)</b>	<b>\$ 49</b>	<b>\$ (98)</b>

**Table of Contents****NOTE 9. Stock-Based Incentive Compensation Plans**

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

	Quarter Ended	
	March 29, 2014	March 30, 2013
	(In millions)	
Cost of sales	\$ 1	\$ 2
Research and development	12	13
Marketing, general and administrative	10	9
Stock-based compensation expense, net of tax of \$0	\$ 23	\$ 24

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 estimate the fair value employee stock options are as follows:

	Quarter Ended	
	March 29, 2014	March 30, 2013
Expected volatility	55.03%	60.97%
Risk-free interest rate	1.06%	0.61%
Expected dividends	0.00%	0.00%
Expected life	3.86 years	3.83 years

For the quarters ended March 29, 2014 and March 30, 2013, the Company granted 60,000 and 1,327,000, respectively, employee stock options with weighted average grant date fair values per share of \$1.62 and \$1.17, respectively.

**Restricted Stock and Restricted Stock Units**

For the quarters ended March 29, 2014 and March 30, 2013, the Company granted 480,000 and 2,447,000 restricted stock units, respectively, with weighted average grant date fair values per share of \$3.80 and \$2.69, respectively.

**NOTE 10. 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 central processing unit (CPU) and AMD APU products that are commonly referred to as processors in a box and for PC workstations products. The Company 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.





**Table of Contents**

Changes in the Company's estimated liability for product warranty during the quarters ended March 29, 2014 and March 30, 2013 were as follows:

	Quarter Ended	
	March 29, 2014	March 30, 2013
	(In millions)	
Beginning balance	\$ 17	\$ 16
New warranties issued	8	6
Settlements	(9)	(6)
Changes in liability for pre-existing warranties, including expirations	2	(2)
Ending balance	\$ 18	\$ 14

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****Securities Litigation**

On March 20, 2014, a purported shareholder derivative lawsuit captioned *Wessels v. Read, et al., Case No. 1:14-cv-262486* was filed against the Company (as a nominal defendant only) and certain of its directors and officers in the Santa Clara County Superior Court of the State of California. The complaint purports to assert claims against the Company and certain individual directors and officers for breach of fiduciary duty, waste of corporate assets and unjust enrichment. The complaint seeks damages allegedly caused by alleged materially misleading statements and/or material omissions by the Company and the individual directors and officers regarding the Company's 32nm technology and Llano product, which statements and omissions, the plaintiffs claim, allegedly operated to inflate artificially the price paid for the Company's common stock during the period. Based upon information presently known to the Company's management, the Company believes that the potential liability, if any, will not have a material adverse effect on the Company's financial condition, cash flows or results of operations.

On January 15, 2014, a class action lawsuit captioned *Hatamian v. AMD, et al., C.A. No. 3:14-cv-00226* was filed against the Company in the United States District Court for the Northern District of California. The complaint purports to assert claims against the Company and certain individual officers for alleged violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Rule 10b-5 of the Exchange Act. The plaintiff seeks to represent a proposed class of all persons who purchased or otherwise acquired the Company's common stock during the period October 27, 2011 through October 28, 2012. The complaint seeks damages allegedly caused by alleged materially misleading statements and/or material omissions by the Company and the individual officers regarding our 32nm technology and Llano product, which statements and omissions, the plaintiffs claim, allegedly operated to inflate artificially the price paid for the Company's common stock during the period. The complaint seeks unspecified compensatory damages, attorneys' fees and costs. Based upon information presently known to the Company's management, the Company believes that the potential liability, if any, will not have a material adverse effect on the Company's financial condition, cash flows or results of operations.

**Other Legal Matters**

The Company is a defendant or plaintiff in various actions that arose in the normal course of business. With respect to these matters, based on the management's current knowledge, the Company believes that the amount or range of reasonably possible loss, if any, will not, either individually or in the aggregate, have a material adverse effect on the Company's business, consolidated financial position, results of operations or cash flows.



**Table of Contents****NOTE 11. Accumulated Other Comprehensive Income (Loss)**

The table below summarizes the changes in accumulated other comprehensive loss by component for the quarters ended March 29, 2014 and March 30, 2013.

	March 29, 2014		Quarter Ended		March 30, 2013	
	Unrealized gains (losses) on available- for-sale securities	Unrealized gains (losses) on cash flow hedges	Unrealized gains (losses) on available- for-sale securities	Total (In millions)	Unrealized gains (losses) on cash flow hedges	Total
Beginning balance	1	\$ (3)	\$ (2)		\$ (3)	\$ (3)
Unrealized losses arising during the period, net of tax effects		(3)	(3)		(1)	(1)
Reclassification adjustment for losses realized and included in net loss, net of tax effects		2	2			
Total other comprehensive loss		(1)	(1)		(1)	(1)
Ending balance	1	\$ (4)	\$ (3)		\$ (4)	\$ (4)

**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, anticipates, the negative of these words and phrases, other variations of these words and phrases or comparable terminology. The forward-looking statements relate to, among other things: demand for our products; the growth, change and competitive landscape of the markets in which we participate; the nature and extent of our future payments to GLOBALFOUNDRIES Inc. (GF) and the materiality of these payments; the materiality of our future purchases from GF; sales patterns of our semi-custom System-on-Chip products for game consoles; consumer PC market conditions; the success of our transformation strategy; our ability to transform our business to attain approximately 50% of revenue from high-growth markets by the end of 2015; the level of international sales as compared to total sales; our ability to reduce our unrecognized tax benefits over the next twelve months; that our cash, cash equivalents and marketable securities, including long-term marketable securities, balances and available external financing will be sufficient to fund our operations including capital expenditures over the next twelve months; our ability to obtain sufficient external financing on favorable terms, or at all; our dependence on a small number of customers; our hedging strategy; and our expenditures related to environmental compliance and conflict minerals disclosure requirements. 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 make additional investment in research and development and that such opportunities will be available; 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 will require additional funding and may be unable to raise sufficient capital on favorable terms, or at all; that customers stop buying our products or materially reduce their operations or demand for our products; 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 foundry suppliers 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 microprocessor manufacturing facilities; that our requirements for wafers will be less than the fixed number of wafers that we agreed to purchase from GF or GF encounters problems that significantly reduce the number of functional die we receive from each wafer; that we are unable to successfully implement our long-term business strategy; that we inaccurately estimate the quantity or type of products that our customers will want in the future or will ultimately end up purchasing, resulting in excess or obsolete inventory; that we are unable to manage the risks related to the use of our third-party distributors and add-in-board (AIB) partners or offer the appropriate incentives to focus them on the sale of 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; that global business and economic conditions will not improve or will worsen; that PC market conditions do 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 33 and the Financial Condition section beginning on page 25 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, the ATI logo, AMD Opteron, Radeon, FirePro and combinations thereof are trademarks of Advanced Micro Devices, Inc. Microsoft is a registered trademark of Microsoft Corporation in the United States and other jurisdictions. Sony is a trademark of Sony Corporation. 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 28, 2013 and December 29, 2012, and for each of the three years in the period ended December 28, 2013 as filed in our Annual Report on Form 10-K for the year ended December 28, 2013.



---

## **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), chipsets, embedded processors and dense servers; and

graphics processing units (GPU), including professional graphics, semi-custom System-on-Chip (SOC) products 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 quarter ended March 29, 2014 compared to the quarter ended December 28, 2013 and the quarter ended March 30, 2013, an analysis of changes in our financial condition and a discussion of our contractual obligations. References in this report to us, our or AMD include these consolidated operating results.

Our financial results for the first quarter of 2014 demonstrate our continued financial and operational discipline as we focused on executing our three-phase transformation plan to restructure, accelerate and transform AMD's business. Net revenue for the first quarter of 2014 was \$1.4 billion, a 28% increase from the first quarter of 2013 and a 12% decrease compared to the fourth quarter of 2013. Our operating income for the first quarter of 2014 was \$49 million, compared to operating loss of \$98 million in the first quarter of 2013 and operating income of \$135 million in the fourth quarter of 2013. During the first quarter of 2014, we continued to manage our operating expenses, which were \$438 million in the first quarter of 2014, compared to \$418 million in the fourth quarter of 2013. Operating expenses in the first quarter of 2014 included the impact of workforce rebalancing severance charges of \$14 million associated with the reduction of our global workforce as part of our transformation plan.

During the first quarter of 2014, we continued to focus on the third phase of our transformation plan to attain approximately 50% of revenue from high-growth adjacent markets by the end of 2015. We launched a number of new products including the AMD Embedded Radeon E8860 GPU, designed to provide immersive graphics and enhanced parallel compute capabilities for embedded applications, such as gaming machines, digital signage and medical imaging. Also, during the first quarter of 2014, we began sampling the AMD Opteron A1100 Series, our first 64-bit ARM-based server processor based on 28 nanometer technology. In the first quarter of 2014, we introduced the AMD FirePro W9100 professional graphics cards for next-generation workstations with ultra-high resolution and multi-display capabilities. We also launched our AMD A-Series APU, codenamed Kaveri, our newest performance APU in the first quarter of 2014.

We continued to focus on our balance sheet during the first quarter of 2014. Cash, cash equivalents and marketable securities, including long-term marketable securities, as of the end of the first quarter of 2014 were \$982 million, compared to \$1.2 billion as of the end of the fourth quarter of 2013. The decrease was primarily due to the final \$200 million cash payment to GLOBALFOUNDRIES Inc. (GF) related to GF's waiver of a portion of our obligations for wafer purchase commitments for the fourth quarter of 2012. Long-term debt, excluding capital leases, as of the end of the first quarter of 2014 was \$2.1 billion, an increase from \$2.0 billion as of the end of the fourth quarter of 2013. During the first quarter of 2014, we repurchased \$64 million in aggregate principal amount of our 6.00% Convertible Senior Notes due 2015 (6.00% Notes) in open market transactions for \$69 million, which included payment of accrued and unpaid interest of \$1 million. Also, during the first quarter of 2014, we repurchased a portion of our 6.00% Notes and our 8.125% Senior Notes due 2017 (8.125% Notes) through partial cash tender offers. We repurchased \$423 million aggregate principal amount of our 6.00% Notes for \$460 million in cash, which included payment of accrued and unpaid interest of \$10 million. We repurchased \$48 million aggregate principal amount of our 8.125% Notes for \$51 million in cash, which included payment of accrued and unpaid interest of \$1 million. To fund these tender offer repurchases, we used a portion of the net proceeds of \$589 million from the issuance and sale of \$600 million of our 6.75% Senior Notes due 2019 (6.75% Notes).

### ***GLOBALFOUNDRIES***

*Wafer Supply Agreement.* The Wafer Supply Agreement (WSA) governs the terms by which we purchase products manufactured by GF.

*Third Amendment to Wafer Supply Agreement.* On December 6, 2012, we entered into a third amendment to the WSA. Pursuant to the third amendment, we modified the wafer purchase commitments for the fourth quarter of 2012 made pursuant to the second amendment to the WSA. In addition, we agreed to certain pricing and other terms of the WSA applicable to wafers for its microprocessor and APU products to be delivered by GF to us from the fourth quarter of 2012 through December 31, 2013. Pursuant to the third amendment, GF agreed to waive a portion of our wafer purchase commitments for the fourth quarter of 2012. In consideration of this waiver, we agreed to pay GF a fee of

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

\$320 million. As a result, we recorded a lower of cost or market charge of \$273 million for the write-down of inventory to its market value in the fourth quarter of 2012. The cash impact of this \$320 million fee was paid over several quarters, with \$80 million paid on December 28, 2012, \$40 million paid on April 1, 2013 and \$200 million paid on December 31, 2013.

## **Table of Contents**

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

Our total purchases from GF related to wafer manufacturing and research and development activities in the first quarter of 2014 and the first quarter of 2013 were \$260 million and \$269 million, respectively.

We currently estimate that the wafer purchase obligation from GF under the fourth amendment to the WSA will be \$1.2 billion for the 2014 calendar year. We are not able to meaningfully quantify or estimate its purchase obligations to GF beyond December 31, 2014, but we expect that our future purchases from GF will continue to be material.

GF is a related party of us because GF is affiliated with West Coast Hitech L.P., our largest stockholder.

## ***Critical Accounting Estimates***

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 U.S. generally accepted accounting principles (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 net revenue, inventories, asset impairments and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Although actual results have historically been reasonably consistent with management's expectations, the actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

Management believes there have been no significant changes during the quarter ended March 29, 2014 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 28, 2013.

During our fourth quarter of 2014, we will perform an annual goodwill impairment analysis pursuant to our accounting policy. If there are declines in our market capitalization, business climate or operating results, we may incur impairment charges that could be material.

## ***Results of Operations***

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

We use the following two reportable segments:

the Computing Solutions segment, which primarily includes x86 microprocessors, as standalone devices or as incorporated as an APU, chipsets, embedded processors and dense servers; and

the Graphics and Visual Solutions segment, which primarily includes GPUs, including professional graphics, semi-custom SOC products, development services and technology for game consoles.

In addition to these reportable segments, we have an All Other category, which is not a reportable segment. This category primarily includes certain expenses and credits that are not allocated to any of the 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, employee stock-based compensation expense, net restructuring and other special charges, net gain from licenses and settlement agreements regarding patent-related matters and workforce rebalancing severance charges. We also reported the results of former businesses in the All Other category because the operating results were not material.



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

We use a 52 or 53 week fiscal year ending on the last Saturday in December. The quarters ended March 29, 2014, December 28, 2013 and March 30, 2013 each consisted of 13 weeks.

Our operating results tend to vary seasonally. For example, historically, first quarter PC product sales are generally lower than fourth quarter sales. In addition, with respect to our semi-custom SOC products for game consoles, we expect sales patterns to follow the seasonal trends of a consumer business with sales in the first half of the year being lower than sales in the second half of the year.

**Table of Contents**

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

	March 29, 2014	Quarter Ended December 28, 2013 (In millions)	March 30, 2013
Net revenue:			
Computing Solutions	\$ 663	\$ 722	\$ 751
Graphics and Visual Solutions	734	865	337
All Other		2	
<b>Total net revenue</b>	<b>\$ 1,397</b>	<b>\$ 1,589</b>	<b>\$ 1,088</b>
Operating income (loss):			
Computing Solutions	\$ (3)	\$ (7)	\$ (39)
Graphics and Visual Solutions	91	121	16
All Other	(39)	21	(75)
<b>Total operating income (loss)</b>	<b>\$ 49</b>	<b>\$ 135</b>	<b>\$ (98)</b>

**Computing Solutions**

Computing Solutions net revenue of \$663 million in the first quarter of 2014 decreased by 12% compared to net revenue of \$751 million in the first quarter of 2013 as a result of a 20% decrease in unit shipments, partially offset by a 10% increase in average selling price. The decrease was primarily attributable to lower unit shipments of our microprocessors for desktop PCs due to challenging consumer PC market conditions and the increasing popularity of tablets as a consumer device of choice, lower unit shipments of our microprocessors for server products due to challenging market conditions and lower unit shipments of our chipset products due to chipsets being integrated into our APU products. The increase in average selling price was attributable to an increase in average selling price of our chipsets and server products.

Computing Solutions net revenue of \$663 million in the first quarter of 2014 decreased by 8% compared to \$722 million in the fourth quarter of 2013 as a result of a 13% decrease in unit shipments, partially offset by a 5% increase in average selling price. The decrease in unit shipments was primarily attributable to lower unit shipments of our microprocessors for desktop PCs, servers and chipset products, partially offset by higher unit shipments for notebooks. Unit shipments of our microprocessors products decreased in line with seasonal trends.

Computing Solutions operating loss was \$3 million in the first quarter of 2014 compared to operating loss of \$39 million in the first quarter of 2013. The improvement in operating results was primarily due to a \$44 million decrease in cost of sales, a \$40 million decrease in marketing, general and administrative expenses and a \$40 million decrease in research and development expenses, partially offset by the decrease in net revenue referenced above. Cost of sales decreased primarily due to lower unit shipments in the first quarter of 2014 compared to the first quarter of 2013. In addition, operating loss for the first quarter of 2014 included a \$4 million benefit from sales of inventory that had been previously reserved in the third quarter of 2012, as compared to a similar \$20 million benefit in operating loss for the first quarter of 2013. Marketing, general and administrative expenses and research and development expenses decreased for the reasons set forth under Expenses, below.

Computing Solutions operating loss was \$3 million in the first quarter of 2014 compared to operating loss of \$7 million in the fourth quarter of 2013. The improvement in operating results was primarily due to a \$31 million decrease in research and development expenses, a \$16 million decrease in cost of sales and a \$16 million decrease in marketing, general and administrative expenses, partially offset by the decrease in net revenue referenced above. Cost of sales decreased primarily due to lower unit shipments in the first quarter of 2014 compared to the fourth quarter of 2013. In addition, operating loss for the first quarter of 2014 included a \$4 million benefit from sales of inventory that had been previously reserved in the third quarter of 2012, as compared to a similar \$7 million benefit in operating loss for the fourth quarter of 2013. Research and development expenses and marketing, general and administrative expenses decreased for the reasons set forth under Expenses, below.

## **Table of Contents**

### ***Graphics and Visual Solutions***

Graphics and Visual Solutions net revenue of \$734 million in the first quarter of 2014 increased by 118% compared to net revenue of \$337 million in the first quarter of 2013. The increase was primarily due to an increase in net revenue received in connection with sales of our semi-custom SOC products, which we began shipping in the second quarter of 2013, and an increase in net revenue from sales of our GPU products, partially offset by a decrease in net revenue from game console royalties. Net revenue from sales of GPU products increased due to an increase in average selling price, partially offset by lower unit shipments. GPU average selling price increased due to improved product mix to higher end GPU products, and unit shipments decreased due to a decrease in unit shipments of our mobile products.

Graphics and Visual Solutions net revenue of \$734 million in the first quarter of 2014 decreased by 15% compared to net revenue of \$865 million in the fourth quarter of 2013, primarily as a result of a decrease in unit shipments and in average selling price. The decrease in unit shipments was primarily attributable to lower unit shipments of our semi-custom SOC products. Unit shipments of our semi-custom SOC products decreased in line with the seasonal trends of a consumer business with sales in the first half of the year being lower than sales in the second half of the year.

Graphics and Visual Solutions operating income was \$91 million in the first quarter of 2014 compared to operating income of \$16 million in the first quarter of 2013. The improvement in operating results was primarily due to the increase in net revenue referenced above, partially offset by a \$313 million increase in cost of sales and an \$11 million increase in marketing, general and administrative expenses. The increase in cost of sales was primarily due to the commencement of unit shipments of our semi-custom SOC products in the second quarter of 2013. Marketing, general and administrative expenses increased for the reasons set forth under Expenses, below.

Graphics and Visual Solutions operating income was \$91 million in the first quarter of 2014 compared to operating income of \$121 million in the fourth quarter of 2013. The decline in operating results was primarily due to the decrease in net revenue referenced above and a \$9 million increase in research and development expenses, partially offset by a \$109 million decrease in cost of sales. The decrease in cost of sales was primarily due to a decrease in unit shipments of our semi-custom SOC products in the first quarter of 2014 compared to the fourth quarter of 2013. Research and development expenses increased for the reasons set forth under Expenses, below.

### ***All Other***

All Other operating loss of \$39 million in the first quarter of 2014 included stock-based compensation expense of \$23 million, \$3 million related to amortization of acquired intangible assets and \$14 million related to workforce rebalancing severance charges. In the first quarter of 2014, workforce rebalancing charges were incurred as part of our ongoing transformation and diversification strategy.

All Other operating loss of \$75 million in the first quarter of 2013 included net restructuring and other special charges of \$47 million, stock-based compensation expense of \$24 million and \$5 million related to amortization of acquired intangible assets.

All Other operating income of \$21 million in the fourth quarter of 2013 included a net benefit of \$48 million from legal settlements offset by stock-based compensation expense of \$24 million and \$4 million related to amortization of acquired intangible assets. During the fourth quarter of 2013, we entered into licenses and settlements regarding patent-related matters, for which we received in aggregate \$48 million in net cash, which we recorded as a gain in operating expense. In addition, we reported \$2 million of net revenue pertaining to results from former businesses.

### ***International Sales***

International sales as a percentage of net revenue were 81% in the first quarter of 2014, 92% in the first quarter of 2013 and 77% in the fourth quarter of 2013. The decrease in international sales as a percentage of net revenue in the first quarter of 2014 and the fourth quarter of 2013 compared to the first quarter of 2013 was primarily driven by an increase in net revenue from domestic sales of our semi-custom SOC products. We expect that international sales will continue to be a significant portion of total sales in the foreseeable future. Substantially all of our sales transactions were denominated in U.S. dollars.

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

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

	March 29, 2014	Quarter Ended December 28, 2013	March 30, 2013
	(In millions except for percentages)		
Cost of sales	\$ 910	\$ 1,036	\$ 643
Gross margin	487	553	445
Gross margin percentage	35%	35%	41%
Research and development	279	293	312
Marketing, general and administrative	156	169	179
Amortization of acquired intangible assets	3	4	5
Restructuring and other special charges, net			47
Legal settlements, net		(48)	
Interest income	1	1	1
Interest expense	(47)	(44)	(44)
Other expense, net	(21)	(2)	(3)
Provision for income taxes	2	1	2

**Gross Margin**

Gross margin as a percentage of net revenue was 35% in the first quarter of 2014 compared to 41% in the first quarter of 2013. Gross margin in the first quarter of 2014 was adversely impacted by the lower average gross margins in our Graphics and Visual Solutions segment primarily driven by lower margin semi-custom SOC products, which we began shipping in the second quarter of 2013. In addition, gross margin in the first quarter of 2013 included a \$20 million benefit from sales of previously reserved inventory in the third quarter of 2012, which accounted for two gross margin percentage points as compared to \$4 million in the first quarter of 2014 which had a less than one percentage point impact.

Gross margin as a percentage of net revenue of 35% in the first quarter of 2014 remained flat compared to gross margin as a percentage of net revenue in the fourth quarter of 2013. Gross margin in the first quarter of 2014 included a \$4 million benefit from sales of previously reserved inventory in the third quarter of 2012, as compared to a similar \$7 million benefit in the fourth quarter of 2013, which had a less than one percentage point impact on gross margin in both first quarter of 2014 and fourth quarter of 2013.

**Expenses****Research and Development Expenses**

Research and development expenses of \$279 million in the first quarter of 2014 decreased by \$33 million, or 11%, compared to \$312 million in the first quarter of 2013. The decrease was primarily due to a \$40 million decrease in research and development expenses attributable to our Computing Solutions segment as a result of a \$37 million decrease in product engineering and design costs, partially offset by a \$9 million increase related to workforce rebalancing severance charges recorded in the All Other category.

Research and development expenses of \$279 million in the first quarter of 2014 decreased by \$14 million, or 5%, compared to \$293 million in the fourth quarter of 2013. The decrease was primarily due to a \$31 million decrease in research and development expenses attributable to our Computing Solutions segment, partially offset by a \$9 million increase in research and development expense attributable to our Graphics and Visual Solutions segment and a \$9 million increase related to workforce rebalancing severance charges recorded in the All Other category. Research and development expenses attributable to our Computing Solutions segment decreased primarily due to a \$30 million decrease in product engineering and design costs. Research and development expenses attributable to our Graphics and Visual Solutions segment increased primarily due to a \$9 million increase in product engineering and design costs.

**Marketing, General and Administrative Expenses**

Marketing, general and administrative expenses of \$156 million in the first quarter of 2014 decreased by \$23 million, or 13%, compared to \$179 million in the first quarter of 2013. The decrease was primarily due to a \$40 million decrease in marketing, general and administrative expenses

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

attributable to our Computing Solutions segment, partially offset by an \$11 million increase in marketing, general and administrative expenses attributable to our Graphics and Visual Solutions segment and a \$5 million increase related to workforce rebalancing severance charges recorded in the All Other category. Marketing, general and administrative expenses attributable to our Computing Solutions segment decreased primarily due to a \$25 million decrease in sales and marketing activities and a \$13 million decrease in other general and administrative expenses. Marketing, general and administrative expenses attributable to our Graphics and Visual Solutions segment increased primarily due to a \$6 million increase in other general and administrative expense and a \$4 million increase in sales and marketing activities.

**Table of Contents**

Marketing, general and administrative expenses of \$156 million in the first quarter of 2014 decreased by \$13 million, or 8%, compared to \$169 million in fourth quarter of 2013. The decrease was primarily due to a \$16 million decrease in marketing, general and administrative expenses attributable to our Computing Solutions segment, partially offset by a \$5 million increase related to workforce rebalancing severance charges recorded in the All Other category. Marketing, general and administrative expenses attributable to our Computing Solutions segment decreased primarily due to a \$19 million decrease in sales and marketing activities, partially offset by a \$3 million increase in other general and administrative expenses.

**Interest Expense**

Interest expense of \$47 million in the first quarter of 2014 increased by \$3 million compared to \$44 million in the first quarter of 2013 and the fourth quarter of 2013 primarily due to the timing of the issuance of new debt and repurchase of other debt.

**Other Expense, Net**

Other expense, net, of \$21 million in the first quarter of 2014 compared to \$3 million and \$2 million of other expense, net, in the first quarter of 2013 and the fourth quarter of 2013, respectively, resulted primarily from a \$15 million loss from debt repurchases during the first quarter of 2014 and fluctuations of foreign currency exchange rates.

**Income Taxes**

In the first quarter of 2014, we recorded an income tax provision of \$2 million due to foreign taxes in profitable locations.

In the first quarter of 2013, we recorded an income tax provision of \$2 million due to \$2 million of foreign taxes in profitable locations and \$1 million related to the reversal of previously recognized tax benefits associated with other comprehensive income, partially offset by \$1 million of Canadian co-op tax credits and the monetization of U.S. tax credits.

As of March 29, 2014, 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 at March 29, 2014, in our estimate, is not more likely than not to be achieved.

Our gross unrecognized tax benefits increased by \$1 million during the first quarter of 2014 due to an increase in Canadian tax credits. The total gross unrecognized tax benefits as of March 29, 2014 were \$53 million. As of March 29, 2014, we recognized \$2 million of previously unrecognized tax benefits available to offset \$2 million of tax liabilities. There were no material changes to accrued interest or penalties in the first quarter of 2014.

We expect to reduce our unrecognized tax benefits by \$31 million, primarily as a result of the potential settlement of tax audits with certain foreign tax authorities over the next 12 months. We do not believe it is reasonably possible that other unrecognized tax benefits will materially change in the next 12 months. However, the settlement, resolution or closure of tax audits are highly uncertain.

**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 29, 2014	Quarter Ended December 28, 2013 (In millions)	March 30, 2013
Cost of sales	\$ 1	\$ 1	\$ 2
Research and development	12	13	13
Marketing, general and administrative	10	10	9
Stock-based compensation expense, net of tax of \$0	\$ 23	\$ 24	\$ 24

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

For all periods 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 expense of \$23 million in the first quarter of 2014 was mostly flat as compared to \$24 million in the first quarter of 2013 and fourth quarter of 2013.

---

**Table of Contents**

**FINANCIAL CONDITION**

***Liquidity***

As of March 29, 2014, our cash, cash equivalents and marketable securities, including long-term marketable securities, of \$982 million were lower compared to \$1.2 billion as of December 28, 2013. The decrease was primarily due to the final \$200 million cash payment related to GF's waiver of a portion of our obligations for wafer purchase commitments for the fourth quarter of 2012. We also used cash of \$21 million for purchases of property, plant and equipment. The percentage of cash, cash equivalents and marketable securities, including long-term marketable securities, held domestically was 93% as of March 29, 2014.

Our debt and capital lease obligations as of March 29, 2014 were \$2.14 billion, which reflected a debt discount adjustment of \$26 million on our 6.00% Notes and 8.125% Notes. During the first quarter of 2014, we issued \$600 million of 6.75% Notes. We also repurchased \$423 million in aggregate principal amount of our 6.00% Notes pursuant to a partial tender offer for \$460 million in cash, \$64 million in aggregate principal amount of our 6.00% Notes in open market transactions for \$69 million and \$48 million in aggregate principal amount of our 8.125% Notes pursuant to a partial tender offer for \$51 million in cash.

With available external financing, we believe our cash, cash equivalents and marketable securities, including long-term marketable securities, balance will be sufficient to fund operations, including capital expenditures, over the next twelve months.

We believe that in the event we decide to obtain external funding, we 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 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, as amended, or a combination of one or more of the foregoing. Uncertain global economic conditions have in the past and may in the future adversely impact our business. If market conditions 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.

***Operating Activities***

Net cash used in operating activities was \$204 million in the first quarter of 2014. A net loss of \$20 million in the first quarter of 2014 was adjusted for non-cash charges consisting primarily of \$53 million of depreciation and amortization expense, \$23 million of employee stock-based compensation expense, a \$15 million net loss on debt redemption related to our 6.00% Notes and 8.125% Notes and \$6 million of non-cash interest expense related to our 6.00% Notes and 8.125% Notes. The net changes in operating assets as of March 29, 2014 compared to December 28, 2013 included a decrease in inventories of \$14 million, primarily driven by higher sales of our GPU products during the first quarter of 2014, an increase in accounts receivable of \$8 million, which was primarily due to timing of collections, and an increase in prepaid expense and other assets of \$8 million, primarily due to increase in prepaid maintenance cost. Accounts payable, accrued liabilities and other decreased by \$124 million in the first quarter of 2014, primarily due to a \$58 million decrease in accrued compensation and benefits, a \$36 million decrease in accounts payable driven by timing of purchases and payments, a \$32 million decrease in accrued and other liabilities, primarily due to software and technology licenses payments of \$19 million, and a decrease in accrued interest expense of \$9 million, partially offset by a \$2 million increase in deferred income on shipments to our distributor customers. Payables to GF, which included all amounts we owe to GF, decreased by \$151 million in the first quarter of 2014. The decrease was primarily due to the final \$200 million payment to GF related to GF's waiver of a portion of our obligations for wafer purchase commitments for the fourth quarter of 2012, partially offset by an increase in accounts payable to GF due to timing of payment.

Net cash used in operating activities was \$155 million in the first quarter of 2013. A net loss of \$146 million was adjusted for non-cash charges consisting primarily of a \$66 million of depreciation and amortization expense, a \$48 million net loss on disposal of property, plant, and equipment, \$24 million of employee stock-based compensation expense and \$6 million of non-cash interest expense related to our 6.00% Notes and 8.125% Notes. The net changes in operating assets as of March 30, 2013 compared to December 29, 2012 included an increase in inventories of \$52 million, primarily in preparation for upcoming product introductions, and an increase in accounts receivable of \$14 million, which was primarily due to timing of sales and collections during the first quarter of 2013. Payables to GF, which included all amounts we owe to GF, decreased by \$74 million in the first quarter of 2013. The decrease was due to a \$175 million payment related to our take-or-pay obligation to





**Table of Contents**

GF, offset by an increase of \$99 million in the amount of billings related to wafer purchases. Accounts payable, accrued liabilities and other decreased by \$12 million in the first quarter of 2013 primarily due to a \$24 million decrease in accrued and other current liabilities, a \$24 million decrease in other liabilities and a \$11 million decrease in accrued compensation and benefits, partially offset by a \$23 million increase in accounts payable and a \$23 million increase in deferred income on shipments to our distributor customers.

**Investing Activities**

Net cash used in investing activities was \$131 million in the first quarter of 2014, which consisted of a net cash outflow of \$110 million from purchases, sales and maturity of available for sale securities and a cash outflow of \$21 million for purchases of property, plant and equipment.

Net cash provided by investing activities was \$47 million in the first quarter of 2013. A net cash inflow from sales of property, plant and equipment of \$178 million, which consisted primarily of \$164 million of net cash proceeds from the sale of our property in Austin, Texas and \$13 million of net cash proceeds from the sale of one of our buildings in Markham, Ontario, Canada, was partially offset by net cash outflow of \$111 million from purchases, sales and maturity of available for sale securities and cash outflow of \$20 million for purchases of property, plant and equipment.

**Financing Activities**

Net cash provided by financing activities was \$20 million in the first quarter of 2014, primarily due to net proceeds from borrowings pursuant to our 6.75% Notes of \$589 million, partially offset by payments to repurchase a portion of our 6.00% Notes of \$518 million, payments to repurchase a portion of our 8.125% Notes of \$50 million and \$1 million in payments for capital lease obligations.

No cash was provided by financing activities in the first quarter of 2013.

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

**Contractual Obligations**

The following table summarizes our consolidated principal contractual cash obligations, as of March 29, 2014, and is supplemented by the discussion following the table:

(In millions)	Payments due by period as of March 29, 2014						2019 and thereafter
	Total	Remainder of 2014	2015	2016	2017	2018	
6.00% Notes <sup>(1)</sup>	\$ 42	\$	\$ 42	\$	\$	\$	\$
8.125% Notes <sup>(1)</sup>	452				452		
6.75% Notes	600						600
7.75% Notes	500						500
7.50% Notes	500						500
Secured Revolving Line of Credit	55	55					
Other long-term liabilities	92		24	38	29		1
Aggregate interest obligation <sup>(2)</sup>	898	117	154	154	152	117	204
Capital lease obligations <sup>(3)</sup>	16	4	5	5	2		
Operating leases	374	45	51	43	40	39	156
Purchase obligations <sup>(4)</sup>	656	586	59	5	4	2	
Obligations to GF <sup>(5)</sup>	1,051	1,051					
<b>Total contractual obligations</b>	<b>\$ 5,236</b>	<b>\$ 1,858</b>	<b>\$ 335</b>	<b>\$ 245</b>	<b>\$ 679</b>	<b>\$ 158</b>	<b>\$ 1,961</b>

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

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

- (1) Represents estimated aggregate interest obligations for our outstanding debt obligations that are payable in cash, excluding capital lease obligations and our senior secured asset based line of credit for a principal amount up to \$500 million (Secured Revolving Line of Credit).
- (2) Also excludes non-cash amortization of debt discounts on our 8.125% Notes and our 6.00% Notes.  
Includes principal and imputed interest.
- (3) We have purchase obligations for goods and services where payments are based, in part, on the volume or type of services we acquire. In those cases, we only included the minimum volume of purchase obligations in the table above. Purchase orders for goods and services that are cancelable upon notice and without significant penalties are not included in the amounts above. In addition we have obligations for software technology and licenses where payments are fixed and non-cancelable.
- (4)

**Table of Contents**

This amount includes all our contractual obligations to GF through December 31, 2014. Our total purchases from GF for the first quarter of 2014 were \$260 million. We are not currently able to meaningfully quantify or estimate our purchase obligations to GF beyond  
(5) December 31, 2014, but we expect that our future purchases from GF will continue to be material.

**6.00% Convertible Senior Notes Due 2015**

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

During the first quarter of 2014, we repurchased \$64 million in aggregate principal amount of our 6.00% Notes in open market transactions for \$69 million, which included payment of accrued and unpaid interest of \$1 million. Also, during the first quarter of 2014, we repurchased a portion of our 6.00% Notes through a partial tender offer. We repurchased \$423 million aggregate principal amount of our 6.00% Notes for \$460 million in cash, which included payment of accrued and unpaid interest of \$10 million. We incurred a total loss of \$10 million in connection with the foregoing repurchases of our 6.00% Notes. As of March 29, 2014, the outstanding aggregate principal amount of our 6.00% Notes was \$42 million and the remaining carrying value was \$41 million, net of a debt discount of \$1 million.

**8.125% Senior Notes Due 2017**

On November 30, 2009, we issued \$500 million of our 8.125% Notes at a discount of 10.204%. Our 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. Our 8.125% Notes are governed by the terms of an indenture dated November 30, 2009 between us and Wells Fargo Bank, National Association, as trustee.

We may redeem our 8.125% Notes for cash at the following specified prices plus accrued and unpaid interest:

Period	Price as Percentage of Principal Amount
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%

During the first quarter of 2014, we repurchased \$48 million in aggregate principal amount of our 8.125% Notes pursuant to a partial tender offer for \$51 million, which included payment of accrued and unpaid interest of \$1 million. We incurred a total loss of \$5 million in connection with the foregoing repurchase of our 8.125% Notes. As of March 29, 2014, the outstanding aggregate principal amount of our 8.125% Notes was \$452 million and the remaining carrying value was \$427 million, net of a debt discount of \$25 million.

**6.75% Senior Notes Due 2019**

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

At any time (which may be more than once) before March 1, 2017, we may redeem up to 35% of the aggregate principal amount of our 6.75% Notes within 90 days of the closing of an equity offering with the net proceeds thereof at a redemption price not greater than 106.75% of the principal amount thereof, together with accrued and unpaid interest to but excluding the date of redemption. At any time (which may be more than once) before March 1, 2019, we may redeem some or all of our 6.75% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a make whole premium (as set forth in the 6.75% Indenture).

As of March 29, 2014, the outstanding aggregate principal amount of our 6.75% Notes was \$600 million.



**Table of Contents****7.75% Senior Notes Due 2020**

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

At any time (which may be more than once) before August 1, 2015, we may redeem some or all of our 7.75% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a make whole premium (as set forth in the 7.75% Indenture).

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

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

As of March 29, 2014, the outstanding aggregate principal amount of our 7.75% Notes was \$500 million.

**7.50% Senior Notes Due 2022**

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

At any time (which may be more than once) before August 15, 2022, we may redeem up to 35% of the aggregate principal amount of our 7.50% Notes within 90 days of the closing of an equity offering with the net proceeds thereof at a redemption price not greater than 107.5% of the principal amount thereof, together with accrued and unpaid interest to but excluding the date of redemption. At any time (which may be more than once) before August 15, 2022, we may redeem some or all of our 7.50% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest and a make whole premium (as set forth in the 7.50% Indenture).

As of March 29, 2014, the outstanding aggregate principal amount of our 7.50% Notes was \$500 million.

**Potential Repurchase of Outstanding Notes**

We may elect to purchase or otherwise retire our 6.00% Notes, 8.125% Notes, 6.75% Notes, 7.75% Notes and 7.50% 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. During the first quarter of 2014, we received \$589 million net proceeds from the issuance of our 6.75% Notes, utilizing the proceeds to repurchase \$423 million aggregate principal amount of our 6.00% Notes and \$48 million aggregate principal amount of our 8.125% Notes. The remaining net proceeds of approximately \$80 million as of March 29, 2014 borrowed under the new debt issuance will be used to pay down or repurchase outstanding debt.

**Secured Revolving Line of Credit**

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

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

The Borrowers can elect that the borrowings under our Secured Revolving Line of Credit may bear interest at a rate per annum equal to (a) London Interbank Offered Rate (LIBOR) plus an applicable margin ranging from 2.00% to 2.75%, or (b) (i) the greater of (x) the Agent's prime rate, (y) the federal funds rate as published by the Federal Reserve Bank of New York plus 0.50%, and (z) LIBOR for a one-month period plus 1.00%, plus (ii) an applicable margin ranging from 1.00% to

**Table of Contents**

1.75%. The applicable margin to be applied to the borrowings under our Secured Revolving Line of Credit is dependent on the Borrowers achieving a certain fixed charge coverage ratio. Our Secured Revolving Line of Credit may be optionally prepaid or terminated or unutilized commitments may be reduced, in each case at any time without premium or penalty. In connection with our Secured Revolving Line of Credit, the Borrowers are required to pay an unused line fee equal to 0.50% per annum, payable monthly on the unused amount of the commitments under our Secured Revolving Line of Credit. The unused line fee decreases to 0.375% per annum when more than 50% of our Secured Revolving Line of Credit is utilized. The Borrowers will pay (i) a monthly fee on all letters of credit outstanding under our Secured Revolving Line of Credit equal to the applicable LIBOR margin and (ii) a fronting fee to the Agent equal to 0.125% of all such letters of credit, payable monthly in arrears.

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

The Loan Agreement contains covenants that place certain restrictions on the Borrowers' ability to, among other things, amend or modify certain terms of any debt of \$50 million or more or subordinated debt, create or suffer to exist any liens upon accounts or inventory, sell or transfer any of Borrowers' accounts or inventory other than certain ordinary-course transfers, make certain changes to either Borrower's name or form or state of organization without notifying the Agent, or liquidate, dissolve, merge, combine or consolidate. Further restrictions apply during a domestic cash trigger period (a Domestic Cash Trigger Period), which occurs (i) upon an event of default or (ii) when the amount of domestic cash or cash equivalents held in certain accounts is at any time less than \$500 million, and ends when both (a) no event of default has existed for 45 days and (b) the amount of domestic cash or cash equivalents held in such accounts has been equal to or greater than \$500 million for 45 days. Such restrictions limit the Borrowers' ability to, among other things, allow certain subsidiaries that manufacture or process inventory for the Borrowers to borrow secured debt or unsecured debt beyond a certain amount, create any liens upon any of the Borrowers' property (other than customary permitted liens and liens on up to \$1.5 billion of secured credit facilities debt (which amount includes our Secured Revolving Line of Credit)), declare or make any distributions, create any encumbrance on the ability of a subsidiary to make any upstream payments, make asset dispositions other than certain ordinary course dispositions, make certain loans, make payments with respect to subordinated debt or certain borrowed money prior to its due date, become a party to certain agreements restricting the Borrowers' ability to incur or repay debt, grant liens, make distributions, or modify loan agreements or enter into any non-arm's-length transaction with an affiliate.

During a Domestic Cash Trigger Period, the Borrowers are required to maintain a fixed charge coverage ratio each four-fiscal quarter periods ending on and after March 29, 2014.

At March 29, 2014, our Secured Revolving Line of Credit had an outstanding loan balance of \$55 million, with an interest rate of 2.75%, and up to \$445 million remained available for future borrowings. As of March 29, 2014, we were in compliance with all required covenants stated in the Loan Agreement and we were not in a Domestic Cash Trigger Period.

The agreements governing our 6.00% Notes, 8.125% Notes, 6.75% Notes, 7.75% Notes and 7.50% Notes and our Secured Revolving Line of Credit contain cross-default provisions whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. The occurrence of a default under any of these borrowing arrangements would permit the applicable note holders or the lenders under the Secured Revolving Line of Credit to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable.

***Other Long-Term Liabilities***

Other long-term liabilities in the contractual obligations table above primarily consists of \$91 million of payments due under certain software and technology licenses that will be paid through 2017 and \$1 million of payments related to employee compensation and benefit obligations that will be paid through 2019 and beyond.

Other long-term liabilities in the contractual obligations table above exclude amounts recorded on our condensed consolidated balance sheet that do not require us to make cash payments, which, as of March 29, 2014, primarily consisted of \$22 million of deferred gains resulting from certain real estate transactions that occurred in Sunnyvale, California in 1998, in Markham, Ontario, Canada in 2008 and in Singapore in 2013, \$8 million deferred rent related to our facilities in Sunnyvale, California and \$4 million restructuring accruals related to our 2012 restructuring plan. Also excluded from other long-term liabilities in the contractual obligations table above are \$4 million of environmental reserve and \$3 million of non-current unrecognized tax benefits, which represent potential cash payments that could be payable by us upon settlements with the related authorities. We have not included these amounts in the contractual obligations table above because we cannot make reasonably reliable estimates regarding the timing of the settlements with the related authorities, if any.

***Capital Lease Obligations***



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

As of March 29, 2014, we had aggregate outstanding capital lease obligations of \$15 million for one of our facilities in Canada, which is payable in monthly installments through 2017.

**Table of Contents**

***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 2025. We lease certain manufacturing and office equipment for terms ranging from one to five years. Total future non-cancelable lease obligations as of March 29, 2014 were \$374 million, including \$313 million of future lease payments and estimated operating costs related to the real estate transactions that occurred in Austin, Texas, Sunnyvale, California, and Singapore.

***Purchase Obligations***

Our purchase obligations primarily include our obligations to purchase wafers and substrates from third parties, excluding our wafer purchase commitments to GF under the WSA. As of March 29, 2014, total non-cancelable purchase obligations were \$656 million.

***Obligations to GF***

Obligations to GF represent all our contractual obligations to GF through December 31, 2014. As of March 29, 2014, we currently estimate the remaining contractual obligations to GF will be \$1.1 billion through December 31, 2014. We are not able to meaningfully quantify or estimate our purchase obligations to GF beyond December 31, 2014, but we expect that our future purchases from GF will continue to be material.

***Off-Balance Sheet Arrangements***

As of March 29, 2014, we had no off-balance sheet arrangements.

**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 28, 2013.

There have not been any material changes in market risk since December 28, 2013.

**Table of Contents**

**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 29, 2014, 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 2014 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

On March 20, 2014, a purported shareholder derivative lawsuit captioned *Wessels v. Read, et al., Case No. 1:14-cv-262486* was filed against AMD (as a nominal defendant only) and certain of our directors and officers in the Santa Clara County Superior Court of the State of California. The complaint purports to assert claims against us and certain individual directors and officers for breach of fiduciary duty, waste of corporate assets and unjust enrichment. The complaint seeks damages allegedly caused by alleged materially misleading statements and/or material omissions by us and the individual directors and officers regarding our 32nm technology and Llano product, which statements and omissions, the plaintiffs claim, allegedly operated to inflate artificially the price paid for our common stock during the period. Based upon information presently known to management, we believe that the potential liability, if any, will not have a material adverse effect on our financial condition, cash flows or results of operations.

**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 (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 marketing and 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. For example, Intel recently introduced microprocessors for low-cost notebooks, similar to products that we offer for low-cost notebooks.

Intel also leverages its dominance in the microprocessor market to sell its integrated graphics 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. 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 and visual solutions 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;

## **Table of Contents**

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 introduction of competitive new products, 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, and have manufactured, new products and related 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. For example, form factors have increasingly shifted from desktop PCs and notebooks to tablets, and tablets have been one of the fastest growing form factors. Historically, a significant portion of our Computing Solutions revenue has been related to desktop PCs. Currently, a significant portion of our business is focused on the consumer PC portions of the market, and we believe that consumer PC market conditions will continue to remain challenging. As consumers adopt new form factors, have new product feature preferences or have different requirements than those consumers in the PC market, PC sales could be negatively impacted, which could negatively impact our business. If we fail to or are delayed in developing, qualifying or shipping new products or technologies that provide value to our customers and address these new trends or if we fail to predict which new form factors consumers will adopt, we may lose competitive positioning, which could cause us to lose market share and require us to discount the selling prices of our products. 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.

Delays in developing, qualifying or shipping new products can also cause us to miss our customers' product design windows or, in some cases, breach contractual obligations or cause us to pay penalties. If our customers do not include our products in the initial design of their computer systems or products, they will typically not use our products in their systems or products until at least the next design configuration. The process of being qualified for inclusion in a customer's system or product 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 sale price is typically reduced over time. The introduction of new products and enhancements to existing products is necessary to maintain the overall corporate average selling price. If we are unable to introduce new products with sufficiently high sale prices or to increase unit sales volumes capable of offsetting the reductions in the sale prices of existing products over time, our business could be materially adversely affected.

***If we cannot generate sufficient revenue 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.***

Our ability to fund research and development expenditures depends on generating sufficient revenue and 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. 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. In addition, credit agency downgrades or concerns regarding our credit worthiness may 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**

***We rely on GF to manufacture most of our microprocessor and APU products and certain of our GPU and semi-custom 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. If GF is unable to achieve anticipated manufacturing yields, remain competitive using or implementing advanced leading-edge process technologies needed to manufacture future generations of our products, manufacture our products on a timely basis at competitive prices or meet our capacity requirements, then we may experience delays in product launches, supply shortages for certain products or increased costs and our business could be materially adversely affected.

On March 30, 2014, we entered into a fourth amendment to the WSA with GF. The primary effect of the fourth amendment was to establish volume purchase commitments and fixed pricing for the 2014 calendar year as well as to modify certain other terms of the WSA applicable to wafers for some of our microprocessor, graphics processor and semi-custom game console products to be delivered by GF to us during the 2014 calendar year. If our requirements are less than the number of wafers that we committed to purchase, we could have excess inventory or higher inventory unit costs, both of which will adversely impact our gross margin and our results of operations.

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

***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 manufacturers 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. If we experience 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, if we are unable to meet customer demand due to fluctuating or late supply from our manufacturing suppliers, it could result in lost sales and have a material adverse effect on our business.

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 beyond the quantities in an existing purchase order. 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 manufacturers 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 manufacturer, 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 manufacturers, which could have a material adverse effect on our business.

## **Table of Contents**

### ***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, including GF, 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.

### ***We may not be able to successfully implement our long-term business strategy.***

We are implementing a long-term business strategy to refocus our business to address markets beyond our core PC market to the faster growing ultra low-power client, embedded, professional graphics, semi-custom and dense server markets. Currently, a significant portion of our business is focused on the consumer PC portions of the market, and we believe that the consumer PC market will continue to remain challenging. The goal of our long-term strategy is to derive approximately 50% of our revenue from high growth adjacent markets by the end of 2015. Despite our efforts, we may not be able to effectively implement our strategy in a timely manner to exploit potential market opportunities or meet competitive challenges. However, if demand for these products is below our expectations, or if we are not able to improve cost efficiencies of this business model, we may not realize benefits from our long-term business strategy.

Moreover, our business strategy is dependent on creating products that anticipate customer requirements and emerging industry trends. For example, in our first quarter of 2014, we sampled Seattle, our first 64-bit ARM server processor. We cannot assure you that our new strategic direction, including our efforts to address markets beyond our core PC market and our efforts to create ARM-based products such as Seattle, will result in innovative products and technologies that provide value to our customers. In addition, we may be entering markets where current and new competitors may be able to adapt more quickly to customer requirements and emerging technologies. We cannot assure you that we will be able to compete successfully against current or new competitors who may have stronger positions in these new markets. We may face delays or disruptions in research and development efforts, or we may be required to significantly invest greater resources in research and development than anticipated.

### ***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. Uncertainty in the worldwide economic environment may negatively impact consumer confidence and spending causing our customers to postpone purchases. For example, our revenue from the second half of 2012 and through the first quarter of 2014 was adversely affected, in part, by the overall weakness in the global economy and weak consumer demand for end-user PC products, which impacted sales. We believe that consumer PC market conditions will continue to remain challenging.

In addition, 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. The risk related to our customers potentially defaulting on or delaying payments to us is increased because we expect that a small number of customers will continue to account for a substantial part of our revenue. 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.

### ***We may not be able to generate sufficient cash to service our debt obligations or meet our working capital requirements.***

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. We cannot assure you that we will be able to generate cash flow or that we will be able to borrow funds, including under

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

our Secured Revolving Line of Credit, in amounts sufficient to enable us to service our debt or to meet our working capital requirements. If we are not able to generate 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, borrow funds under our Secured Revolving Line of Credit or borrow more funds on terms acceptable to us, if at all.

**Table of Contents**

*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 total debt as of March 29, 2014 was \$2.1 billion, which reflects the debt discount adjustment on our 6.00% Notes and our 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.

*The agreements governing our notes and our Secured Revolving Line of Credit impose restrictions on us that may adversely affect our ability to operate our business.*

The indentures governing our 8.125% Notes, 7.75% Notes, 7.50% Notes and 6.75% Notes contain various covenants which limit our ability to, among other things:

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;

use the proceeds from sales of assets;

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

enter into certain types of transactions with affiliates; and

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

Our Secured Revolving Line of Credit also contains various covenants which limit our ability to, among other things, make certain investments, merge or consolidate with other entities and permit certain subsidiaries from incurring indebtedness. In addition, during a domestic cash trigger period (a Domestic Cash Trigger Period), which occurs (i) upon an event of default or (ii) when the amount of domestic cash or cash equivalents held in certain accounts is at any time less than \$500 million, and ends when both (a) no event of default has existed for 45 days and (b) the amount of domestic cash or cash equivalents held in such accounts has been equal to or greater than \$500 million for 45 days, we will become subject to various additional covenants which limit our ability to, among other things:

allow certain subsidiaries that manufacture or process inventory for us or AMD International Sales & Service, Ltd. (together, the Borrowers) to borrow secured debt or unsecured debt beyond a certain amount;

create any liens upon any of the Borrowers' property (other than customary permitted liens and liens on up to \$1.5 billion of secured credit facilities debt (which amount includes our Secured Revolving Line of Credit));

declare or make any distributions;

create any encumbrance on the ability of a subsidiary to make any upstream payments;

make asset dispositions other than certain ordinary course dispositions;

make certain loans, make payments with respect to subordinated debt or certain borrowed money prior to its due date;

become a party to certain agreements restricting the Borrowers' ability to incur or repay debt, grant liens, make distributions; and

modify loan agreements or enter into any non-arm's-length transaction with an affiliate.

## **Table of Contents**

During a Domestic Cash Trigger Period, we also would be required to maintain a fixed charge coverage ratio each four-fiscal quarter period ending on and after March 29, 2014.

The agreements governing our notes and our Secured Revolving Line of Credit contain cross-default provisions whereby a default under one agreement would likely result in cross defaults under agreements covering other borrowings. 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, 7.50% Notes, 6.75% Notes and 6.00% Notes, as well as under our Secured Revolving Line of Credit. The occurrence of a default under any of these borrowing arrangements would permit the applicable note holders or the lenders under our Secured Revolving Line of Credit 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, 7.50% Notes, 6.75% Notes or 6.00% Notes or the lenders under our Secured Revolving Line of Credit accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings.

### ***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 (including enabling state of the art visual experience), power consumption (including battery life), reliability, selling price, processor clock speed, size (or form factor), cost, adherence to industry standards (and the creation of open industry standards), level of integration, 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 or new competitors of products that may provide better performance/experience or may include additional features that render our products uncompetitive and aggressive pricing by competitors, especially during challenging economic times. Some competitors may have greater access or rights to companion technologies, including interface, processor and memory technical information. With the introduction of our APU products and other competing solutions, we believe that demand for additional discrete graphic cards may decrease in the future due to both the improvement of the quality of our competitor's integrated graphics and the graphics performance of our APUs. If competitors introduce competitive new products into the market before us, demand for our products could be adversely impacted and our business could be adversely affected.

We are implementing a long-term business strategy to refocus our business to address markets beyond our core PC market to the high-growth adjacent ultra low-power client, embedded, professional graphics, semi-custom and dense server markets. However, we are entering markets with new and different competitors who may be able to adapt more quickly to customer requirements and emerging technologies. We cannot assure you that we will be able to compete successfully against current or new competitors who may have stronger positions in these new markets or superior ability to anticipate customer requirements and emerging industry trends.

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

Collectively, our top five customers accounted for approximately 54% of our net revenue in the first quarter of 2014. On a segment basis, during the first quarter of 2014, five customers accounted for approximately 54% of the net revenue of our Computing Solutions segment and five customers accounted for approximately 75% of the net revenue of our Graphics and Visual Solutions segment. We expect that a small number of customers will continue to account for a substantial part of revenues of our businesses in the future. If one of our key customers decides to stop buying our products, or if one of these customers materially reduces its operations or its demand for our products, our business would be materially adversely affected.

### ***Our receipt of revenue from our semi-custom SOC products is dependent upon our technology being designed into third-party products and the success of those products.***

The revenue that we receive from our semi-custom SOC products is in the form of non-recurring engineering fees charged to third parties for design and development services and revenue received in connection with sales of our semi-custom SOC products to these third parties. As a result, our ability to generate revenue from our semi-custom products depends on our ability to secure customers for our semi-custom design pipeline and our semi-custom SOC products being incorporated into those customer's products. Any revenue from sales of our semi-custom SOC products is directly related to sales of the third-party's products and reflective of their success in the market. Moreover, we have no control over the marketing efforts of these third parties, and we cannot make any assurances that sales of their products will be successful in current or future years. Consequently, the semi-custom SOC product revenue expected by us may not be fully realized and our operating results may be adversely affected.



## **Table of Contents**

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

A significant portion of our business is currently dependent upon the market for desktop PCs and notebooks. Form factors have increasingly shifted from desktop PCs and notebooks to tablets, with tablets being one of the fastest growing form factors. Historically, a significant portion of our Computing Solutions revenue has been related to desktop PCs. Currently, a significant portion of our business is focused on the consumer PC portions of the market, and we believe that consumer PC market conditions will continue to remain challenging. Industry-wide fluctuations in the computer marketplace have materially adversely affected us in the past and may materially adversely affect us in the future. For example, our net revenue from the second half of 2012 through the first quarter of 2014 was adversely affected, in part, by the overall weakness in the global economy and weak consumer demand for end-user PC products, which impacted sales. The success of our semi-custom SOC products is dependent on securing customers for our semi-custom design pipeline and consumer market conditions, including the success of the Sony PlayStation®4 and Microsoft Xbox One game console systems.

***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 demand for more features and greater functionality from semiconductor products 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, is not available in the time frame or price point needed for our new products or fails to produce designs that meet customer demands, our business could be materially adversely affected.

***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, GPU and APU offerings. We also rely on our AIBs to support our GPU and APU businesses. 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 x86-based 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.

***We may incur future impairments of goodwill.***

We perform our annual goodwill impairment analysis as of the first day of the fourth quarter of each year. Subsequent to our annual goodwill impairment analysis, we monitor for any events or changes in circumstances, such as significant adverse changes in business climate or operating results, changes in management's business strategy, an inability to successfully introduce new products in the marketplace, an inability to successfully achieve internal forecasts or significant declines in our stock price, which may represent an indicator of impairment. The occurrence of any of these events may require us to record future goodwill impairment charges.

***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



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

programs could be hindered, and we could be materially adversely affected. To help attract, retain and motivate qualified personnel, we use share-based incentive awards such as employee stock options and non-vested share units (restricted stock units). If the value of such stock awards does not appreciate as measured by the performance

---

## **Table of Contents**

of the price of our common stock, or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate personnel could be weakened, which could harm our results of operations. In addition, our recent and any future restructuring plans may adversely impact our ability to attract and retain key employees.

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

Upon a change of control, we will be required to offer to repurchase all of our 8.125% Notes, 7.75% Notes, 7.50% Notes and 6.75% Notes then outstanding at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the repurchase date, and to offer to repurchase all of our 6.00% Notes then outstanding at 100% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding the repurchase date. In addition, a change of control would be an event of default under our Secured Revolving Line of Credit. As of March 29, 2014, \$55 million was outstanding under our Secured Revolving Line of Credit and \$2.1 billion was outstanding under our notes. Future debt agreements may contain similar provisions. We may not have the financial resources to repurchase our outstanding notes and prepay all of our outstanding obligations under our Secured Revolving Line of Credit.

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

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.

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. Our financial performance has been, and may in the future be, negatively affected by these downturns. For example, our net revenue from the second half of 2012 through the first quarter of 2014 was adversely affected, in part, by the overall weakness in the global economy and weak consumer demand for end-user PC products, which impacted sales. We believe that consumer PC market conditions will continue to remain challenging.

The growth of our business is also dependent on continued demand for our products from high-growth, emerging global markets. 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.

***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, first quarter PC product sales are generally lower than fourth quarter sales. In addition, with respect to our semi-custom SOC products for game consoles, we expect sales patterns to follow the seasonal trends of a consumer business with sales in the first half of the year being lower than sales in the second half of the year. Many of the factors that create and affect quarterly and seasonal trends are beyond our control.

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

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

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 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, or in some cases, a sole supplier. We also depend on a limited number of suppliers to provide the majority of certain types of integrated circuit packages for our microprocessors, including our 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 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.

---

## **Table of Contents**

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 or manufacturing suppliers are unable to procure materials for manufacturing our products, our business would be materially adversely affected.

*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, 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 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 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.

*If we fail to maintain the efficiency of our supply chain as we respond to 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, expand to high-growth adjacent markets, acquire new customers and strengthen relationships with existing customers, the efficiency of our supply chain will become increasingly important because many of our customers 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, to our manufacturing suppliers and to our customers. In addition, we rely on third parties to provide certain information technology services to us, including help desk 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.

## **Table of Contents**

***Our business is dependent upon the proper functioning of our internal business processes and information systems and modification or interruption of such systems may disrupt our business, processes and internal controls.***

We rely upon a number of internal business processes and information systems to support key business functions, and the efficient operation of these processes and systems is critical to our business. Our business processes and information systems need to be sufficiently scalable to support the growth of our business and may require modifications or upgrades that expose us to a number of operational risks. We are currently pursuing initiatives to transform and optimize our business operations through the reengineering of certain processes, investment in automation and engagement of strategic partners or resources to assist with certain business functions. These changes may be costly and disruptive to our operations and could impose substantial demands on management time.

These changes may also require changes in our information systems, modification of internal control procedures and significant training of employees and third-party resources. We are currently implementing an initiative to transition certain key information technology applications and business systems from various development locations to centralized consolidated data centers. There can be no assurance that our business and operations will not experience any disruption in connection with this transition. Our information technology systems, and those of third-party information technology providers or business partners, may also be vulnerable to damage or disruption caused by circumstances beyond our control including catastrophic events, power anomalies or outages, natural disasters, viruses or malware, and computer system or network failures. There can be no assurance that our business systems or those of our third-party business partners would not be subject to similar incidents, including cyber-security incidents, exposing us to significant cost, reputational harm and disruption or damage to our business.

***Data breaches and cyber-attacks could compromise our intellectual property or other sensitive information and cause significant damage to our business and reputation.***

In the ordinary course of our business, we maintain sensitive data on our networks, including our intellectual property and proprietary or confidential business information relating to our business and that of our customers and business partners. The secure maintenance of this information is critical to our business and reputation. We believe that companies in the technology industry have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. Our network and storage applications may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. In some cases, it is difficult to anticipate or immediately detect such incidents and the damage caused thereby. These data breaches and any unauthorized access or disclosure of our information or intellectual property could compromise our intellectual property and expose sensitive business information. Cyber-attacks could also cause us to incur significant remediation costs, disrupt key business operations and divert attention of management and key information technology resources. These incidents could also subject us to liability, expose us to significant expense and cause significant harm to our reputation and business.

***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 for standard products more than 30 days prior to shipment without incurring significant fees. We base our inventory levels in part 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.

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 or a reduction in our gross margin include:

a sudden or significant decrease in demand for our products;

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

a production or design defect in 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 products, including for our older products as our new products are introduced; or

our competitors taking aggressive pricing actions.

## **Table of Contents**

Because market conditions are uncertain and because we believe that consumer PC market conditions will continue to remain challenging, these and other factors could materially adversely affect our business.

### ***Our reliance on third-party distributors and add-in-board (AIB) 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, decided to market our competitors' products over our products or decided not to market our products at all, our ability to bring our products to market would be impacted and we would be materially adversely affected. If we are unable to manage the risks related to the use of our third-party distributors and AIB partners or offer the appropriate incentives to focus them on the sale of our products, our business could 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 12 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.

### ***Acquisitions could disrupt our business, harm our financial condition and operating results or dilute, or adversely affect the price of, our common stock.***

Our success will depend, in part, on our ability to expand our product offerings and grow our business in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may pursue growth through the acquisition of complementary businesses, solutions or technologies rather than through internal development. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete identified acquisitions. Moreover, if such acquisitions require us to seek additional debt or equity financing, we may not be able to obtain such financing on terms favorable to us or at all. Even if we successfully complete an acquisition, we may not be able to assimilate and integrate effectively or efficiently the acquired business, technologies, solutions, assets, personnel or operations, particularly if key personnel of the acquired company decide not to work for us. Acquisitions may also involve the entry into geographic or business markets in which we have little or no prior experience. Consequently, we may not achieve anticipated benefits of the acquisitions which could harm our operating results. In addition, to complete an acquisition, we may issue equity securities, which would dilute our stockholders' ownership and could adversely affect the price of our common stock, as well as incur debt, assume contingent liabilities or have amortization expenses and write-downs of acquired assets, which could adversely affect our results of operations. Acquisitions may also reduce our cash available for operations and other uses, which could harm our business.

### ***Our worldwide operations are subject to political, legal 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 and Taiwan. We also have international sales operations. International sales, as a percent of net revenue, were 81% in the first quarter of 2014. We expect that international sales will continue to be a significant portion of total sales in the foreseeable future.

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

expropriation;

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

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;



## **Table of Contents**

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

changes in freight and interest rates;

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 and economic sanctions laws and regulations and the Foreign Corrupt Practices Act.

In addition, our worldwide operations (or those of our business partners) 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 issues (for example, an outbreak of a contagious disease such as Avian Influenza), safety issues, 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. 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, longer payment cycles, 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 political conditions may adversely affect demand for our products.***

Worldwide 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. Terrorist attacks or other hostile acts may negatively affect our operations, or adversely affect demand for our products, and such attacks or related armed conflicts may 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 adversely affect us.***

We have costs, assets and liabilities that are denominated in foreign currencies, primarily the Canadian dollar and Chinese renminbi. 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 channels 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 channels 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.***

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

---

**Table of Contents**

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 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. For example, on January 15, 2014 and March 20, 2014, complaints were filed against us seeking damages for alleged securities law violations, which are described in Note 10 of our unaudited condensed consolidated financial statements, above. 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, including claims in the January 15, 2014 and March 20, 2014 complaints filed 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 of, or third parties may bring or have brought, actions against us and/or against our customers based on allegations that we are infringing the intellectual property rights of others, contributing to or inducing the infringement of the intellectual property rights of others or otherwise improperly using the intellectual property of others. If any such claims are asserted, 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 or our customers seeking damages (potentially up to and including treble damages) or an injunction against the sale of 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 could 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.

***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 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 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.



**Table of Contents**

Environmental laws are complex, change frequently and have tended to become more stringent over time. For example, the 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. These regulations affect semiconductor devices and packaging. As regulations restricting materials in electronic products continue to 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.

Recent U.S. legislation includes disclosure and reporting requirements for companies who use conflict minerals that originate from the Democratic Republic of Congo or adjoining countries. We will likely incur additional costs associated with complying with these requirements, such as costs related to determining the source of any conflict minerals used in our products, auditing the process and reporting to our customers and the U.S. government. 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 are likely to encounter challenges to satisfy those customers who require that all of the components of our products are certified as conflict free, and if we cannot satisfy these customers, they may choose a competitor's products. In January 2014, Intel announced that all of its microprocessor products are conflict free. Our first conflict minerals report covering the 2013 calendar year is due to the SEC by June 2, 2014.

A number of jurisdictions including the EU, Australia and China are developing or have finalized market entry or public procurement regulations for computers and servers based on ENERGY STAR specifications as well as additional energy consumption limits. There is the potential for certain of our products being excluded from some of 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**

- 4.1 Indenture governing 6.75% Senior Notes due 2019, including the Form of 6.75% Senior Note due 2019, between Advanced Micro Devices, Inc. and Wells Fargo Bank, N.A., dated February 26, 2014, filed as Exhibit 4.1 to AMD's Current Report on Form 8-K dated February 26, 2014, is hereby incorporated by reference.
- 10.1\* Wafer Supply Agreement Amendment No. 4, among Advanced Micro Devices, Inc., GLOBALFOUNDRIES Inc. and GLOBALFOUNDRIES U.S. Inc., dated March 30, 2014.
- 10.2 Registration Rights Agreement, between Advanced Micro Devices, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, dated February 26, 2014, filed as Exhibit 10.1 to AMD's Current Report on Form 8-K dated February 26, 2014, is hereby incorporated by reference.
- 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.

\* 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.

May 1, 2014

By: /s/ Devinder Kumar  
**Devinder Kumar**  
Senior Vice President and Chief Financial Officer

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