

ADVANCED MICRO DEVICES INC

Form 10-Q

August 01, 2013

[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 June 29, 2013

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 July 29, 2013: 720,015,466

Table of Contents

INDEX

	Page No.
<u>Part I Financial Information</u>	
Item 1	
<u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Operations – Quarters and Six Months Ended June 29, 2013 and June 30, 2012</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Quarters and Six Months Ended June 29, 2013 and June 30, 2012</u>	4
<u>Condensed Consolidated Balance Sheets – June 29, 2013 and December 29, 2012</u>	5
<u>Condensed Consolidated Statements of Cash Flows – Six Months Ended June 29, 2013 and June 30, 2012</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2	20
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3	34
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
Item 4	35
<u>Controls and Procedures</u>	
<u>Part II Other Information</u>	
Item 1A	36
<u>Risk Factors</u>	
Item 6	50
<u>Exhibits</u>	
<u>Signatures</u>	51

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(In millions, except per share amounts)			
Net revenue	\$ 1,161	\$ 1,413	\$ 2,249	\$ 2,998
Cost of sales	702	775	1,345	2,333
Gross margin	459	638	904	665
Research and development	308	345	620	713
Marketing, general and administrative	171	212	350	442
Amortization of acquired intangible assets	4	4	9	5
Restructuring and other special charges, net	5		52	8
Operating income (loss)	(29)	77	(127)	(503)
Interest income	2	2	3	4
Interest expense	(42)	(43)	(86)	(86)
Other income (expense), net	(2)	(5)	(5)	(6)
Income (loss) before income taxes	(71)	31	(215)	(591)
Provision (benefit) for income taxes	3	(6)	5	(38)
Net income (loss)	\$ (74)	\$ 37	\$ (220)	\$ (553)
Net income (loss) per share				
Basic	\$ (0.10)	\$ 0.05	\$ (0.29)	\$ (0.75)
Diluted	\$ (0.10)	\$ 0.05	\$ (0.29)	\$ (0.75)
Shares used in per share calculation:				
Basic	752	739	751	737
Diluted	752	755	751	737

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(In millions)			
Net income (loss)	\$ (74)	\$ 37	\$ (220)	\$ (553)
Other comprehensive income (loss):				
Unrealized gains (losses) on cash flow hedges:				
Unrealized gains (losses) arising during period, net of tax effect of \$(1), \$(1), \$(2) and zero	(2)	(1)	(3)	
Reclassification adjustment for (gains) losses realized and included in net income (loss), net of tax effect of zero				1
Total other comprehensive income (loss)	(2)	(1)	(3)	1
Total comprehensive income (loss)	\$ (76)	\$ 36	\$ (223)	\$ (552)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	June 29, 2013	December 29, 2012*
	(In millions, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 334	\$ 549
Marketable securities	634	453
Total cash and cash equivalents and marketable securities	968	1,002
Accounts receivable, net	670	630
Inventories, net	711	562
Prepaid expenses and other current assets	109	71
Total current assets	2,458	2,265
Long-term marketable securities	149	181
Property, plant and equipment, net	402	658
Acquisition related intangible assets, net	87	96
Goodwill	553	553
Other assets	248	247
Total assets	\$ 3,897	\$ 4,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 402	\$ 278
Payable to GLOBALFOUNDRIES	414	454
Accrued liabilities	475	489
Deferred income on shipments to distributors	129	108
Current portion of long-term debt and capital lease obligations	5	5
Other current liabilities	26	63
Total current liabilities	1,451	1,397
Long-term debt and capital lease obligations, less current portion	2,042	2,037
Other long-term liabilities	45	28
Commitments and contingencies (See Note 10)		
Stockholders equity:		
Capital stock:		
Common stock, par value \$0.01; 1,500 shares authorized on June 29, 2013 and December 29, 2012; shares issued: 729 on June 29, 2013 and 722 shares on December 29, 2012; shares outstanding: 720 on June 29, 2013 and 713 shares on December 29, 2012	7	7
Additional paid-in capital	6,848	6,803
Treasury stock, at cost (10 shares on June 29, 2013 and 9 shares on December 29, 2012)	(110)	(109)
Accumulated deficit	(6,380)	(6,160)
Accumulated other comprehensive loss	(6)	(3)
Total stockholders equity	359	538

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

Total liabilities and stockholders equity	\$ 3,897	\$ 4,000
--	----------	----------

* Amounts as of December 29, 2012 were derived from the December 29, 2012 audited financial statements.
See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 29,	June 30,
	2013	2012
	(In millions)	
Cash flows from operating activities:		
Net loss	\$ (220)	\$ (553)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Non-cash portion of the limited waiver of exclusivity from GLOBALFOUNDRIES		278
Depreciation and amortization	125	128
Net loss on disposals of property, plant and equipment	47	
Deferred income taxes	1	(40)
Stock-based compensation expense	44	47
Non-cash interest expense	12	12
Other	1	(1)
Changes in operating assets and liabilities:		
Accounts receivable	(39)	177
Inventories	(149)	(355)
Prepaid expenses and other current assets	(42)	(16)
Other assets	(33)	(18)
Payable to GLOBALFOUNDRIES	(40)	484
Accounts payable, accrued liabilities and other	103	45
Net cash provided by (used in) operating activities	(190)	188
Cash flows from investing activities:		
Acquisition of SeaMicro, Inc., net of cash acquired		(281)
Purchases of property, plant and equipment	(48)	(79)
Proceeds from sale of property, plant and equipment	181	
Purchases of available-for-sale securities	(753)	(548)
Proceeds from sales and maturities of available-for-sale securities	593	850
Other		(5)
Net cash used in investing activities	(27)	(63)
Cash flows from financing activities:		
Net proceeds from foreign grants	2	12
Proceeds from issuance of common stock	2	12
Repayments of debt and capital lease obligations	(2)	(2)
Other		(1)
Net cash provided by financing activities	2	21
Net increase (decrease) in cash and cash equivalents	(215)	146
Cash and cash equivalents at beginning of period	549	869
Cash and cash equivalents at end of period	\$ 334	\$ 1,015

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

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 and six months ended June 29, 2013 shown in this report are not necessarily indicative of results to be expected for the full year ending December 28, 2013. 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 29, 2012.

The Company uses a 52 or 53 week fiscal year ending on the last Saturday in December. The quarters and six months ended June 29, 2013 and June 30, 2012 each consisted of 13 and 26 weeks, respectively.

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

Recently Adopted Accounting Standards. In February 2013, the FASB issued Accounting Standard Update (ASU) 2013-02, Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to present the effect on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. ASU 2013-02 became effective for fiscal years and interim periods within those years beginning after December 15, 2012. The Company adopted this standard during the first quarter of 2013. The adoption of this standard only impacted the presentation of the Company's condensed consolidated financial statements.

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).

Second Amendment to Wafer Supply Agreement. On March 4, 2012, the Company entered into a second amendment to the WSA with GF. The primary effect of this second amendment was to modify certain pricing and other terms of the WSA applicable to wafers for the Company's microprocessor and APU products to be delivered by GF to the Company during 2012. The second amendment also granted the Company certain rights to contract with another wafer foundry supplier with respect to specified 28nm products for a specified period of time. In consideration for these rights, the Company agreed to pay GF \$425 million and transfer to GF all of the capital stock of GF that it owned. As a result of the Company receiving these rights in the first quarter of 2012, the Company recorded a charge related to this limited waiver of exclusivity from GF of \$703 million consisting of the \$425 million cash payment and a \$278 million non-cash charge representing the carrying and fair value of the capital stock that the Company transferred to GF. Pursuant to the second amendment, the Company paid the full amount of \$425 million by December 31, 2012. Of this amount, the final portion of \$175 million was paid during the Company's first fiscal quarter of 2013.

Third Amendment to Wafer Supply Agreement. On December 6, 2012, the Company entered into a third amendment to the WSA with GF. Pursuant to the third amendment, the Company modified its wafer purchase commitments for the fourth quarter of 2012 under the second amendment to the WSA. In addition, the Company agreed to certain pricing and other terms of the WSA applicable to wafers for the Company's microprocessor and APU products to be delivered by GF to the Company during 2013 and through December 31, 2013. Pursuant to the third amendment, the Company committed to purchase a fixed number of production wafers at negotiated prices in the fourth quarter of 2012 and through December 31, 2013. 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, of which \$80 million was paid on December 31, 2012 and \$40 million was paid on April 1, 2013, with the remaining \$200 million payable by December 31, 2013, pursuant to a promissory note issued by the Company to GF. As a result, the Company recorded a lower of cost or market, or LCM charge, of \$273 million for the write-down of inventory to its market value in the fourth quarter of 2012.

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

GF is a related party of the Company. The Company's total purchases from GF related to wafer manufacturing and research and development activities in the quarter and six months ended June 29, 2013 were approximately \$255 million and \$524 million, respectively. The Company's total purchases from GF related to wafer manufacturing and research and development activities during the quarter and six months ended June 30, 2012 were approximately \$415 million and \$835 million, respectively.

Table of Contents

The Company's current estimates for wafer purchase obligations to GF under the WSA, as amended, are approximately \$1.15 billion in 2013 and \$250 million in the first quarter of 2014. The Company is not able to meaningfully quantify or estimate its purchase obligations to GF beyond the first quarter of 2014, but it expects that its future purchases from GF will continue to be material.

NOTE 3. Sale and Leaseback Transactions

In March 2013, the Company sold and leased back property in Austin, Texas, consisting of land and office buildings. The Company received net proceeds of \$164 million in connection with the sale and recorded a \$52 million charge in the first quarter of 2013, primarily related to the difference between the sale proceeds and the carrying value of the property sold of \$216 million. The lease expires in March 2025 and provides for one 10-year optional renewal. The Company accounts for the lease as an operating lease.

In March 2013, the Company also sold property in Markham, Ontario, Canada, consisting of an office building, and leased back a portion of the original space. The Company received net proceeds of \$13 million in connection with the sale and recorded a \$6 million gain in the first quarter of 2013, primarily related to the difference between the sale proceeds and the carrying value of the property sold of \$7 million. The lease period expires in March 2014 and provides for one 6-month renewal option. The lease also contains an early termination provision, which the Company exercised. The Company accounted for the lease as an operating lease. The lease was terminated effective June 30, 2013.

The net loss of \$46 million related to the sale and leaseback transactions described above was recorded as Restructuring and other special charges, net on the condensed consolidated statement of operations.

NOTE 4. Supplemental Balance Sheet Information**Accounts Receivable**

	June 29, 2013	December 29, 2012 (In millions)
Accounts receivable	\$ 671	\$ 632
Allowance for doubtful accounts	(1)	(2)
Total accounts receivable, net	\$ 670	\$ 630

Inventories

	June 29, 2013	December 29, 2012 (In millions)
Raw materials	\$ 29	\$ 29
Work in process	516	357
Finished goods	166	176
Total inventories, net	\$ 711	\$ 562

Table of Contents*Property, Plant and Equipment*

	June 29, 2013	December 29, 2012
	(In millions)	
Land and land improvements	\$ 7	\$ 31
Buildings and leasehold improvements	324	591
Equipment	1,510	1,585
Construction in progress	31	11
	1,872	2,218
Accumulated depreciation and amortization	(1,470)	(1,560)
Total property, plant and equipment, net	\$ 402	\$ 658

Accrued Liabilities

	June 29, 2013	December 29, 2012
	(In millions)	
Accrued compensation and benefits	\$ 167	\$ 158
Marketing programs and advertising expenses	134	160
Software technology and licenses payable	18	18
Other	156	153
Total accrued liabilities	\$ 475	\$ 489

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 warrants issued by the Company to West Coast Hitech L.P., in connection with the initial GF transaction in 2009. The warrants became exercisable on July 24, 2009.

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

Table of Contents

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

	Quarter Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
(In millions, except per share amounts)				
Numerator Net income (loss):				
Numerator for basic and diluted net income (loss) per share	\$ (74)	\$ 37	\$ (220)	\$ (553)
Denominator Weighted average shares				
Denominator for basic net income (loss) per share	752	739	751	737
Effect of potentially dilutive shares:				
Employee stock options and restricted stock units		16		
Denominator for diluted net income (loss) per share	752	755	751	737
Net income (loss) per share:				
Basic	\$ (0.10)	\$ 0.05	\$ (0.29)	\$ (0.75)
Diluted	\$ (0.10)	\$ 0.05	\$ (0.29)	\$ (0.75)

Potential shares from outstanding stock options and restricted stock awards totaling approximately 52 million were not included in the net loss per share calculation for the second quarter of 2013 because their inclusion would have been anti-dilutive.

Potential shares from outstanding stock options and restricted stock awards totaling approximately 54 million were not included in the net loss per share calculation for the six months ended June 29, 2013 because their inclusion would have been anti-dilutive.

Potential shares (i) from outstanding stock options and restricted stock awards totaling approximately 19 million and (ii) issuable under the 5.75% Convertible Senior Notes due 2012 (5.75% Notes) totaling 24 million were not included in the net income per share calculation for the second quarter of 2012 because their inclusion would have been anti-dilutive.

Potential shares (i) from outstanding stock options and restricted stock awards totaling approximately 18 million and (ii) issuable under the 5.75% Notes totaling 24 million were not included in the net loss per share calculation for the six months ended June 30, 2012 because their inclusion would have been anti-dilutive.

Table of Contents**NOTE 6. Financial Instruments**

Available-for-sale securities held by the Company as of June 29, 2013 and December 29, 2012 were as follows:

	June 29, 2013	December 29, 2012
	(In millions)	
Fair Value		
Classified as cash equivalents:		
Money market funds	\$ 165	\$ 402
Commercial paper	80	75
Total classified as cash equivalents	\$ 245	\$ 477
Classified as current marketable securities:		
Commercial paper	\$ 519	\$ 324
Time deposits	100	100
Auction rate securities	15	28
Marketable equity security		1
Total classified as current marketable securities	\$ 634	\$ 453
Classified as long-term marketable securities:		
Money market funds	\$	\$ 13
Corporate bonds	149	168
Total classified as long-term marketable securities	\$ 149	\$ 181
Classified as other assets:		
Money market funds	\$ 18	\$ 10
Mutual funds	13	14
Total classified as other assets	\$ 31	\$ 24

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

As of June 29, 2013 and December 29, 2012, the Company had approximately \$18 million and \$10 million of available-for-sale investments in money market funds used as collateral for leased buildings and letter of credit deposits, which were included in other assets on the Company's condensed consolidated balance sheets. The Company is restricted from accessing these deposits.

At June 29, 2013 and December 29, 2012, the Company had approximately \$13 million and \$14 million 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. The Company is restricted from accessing these investments.

There were no sales of available-for-sale securities during the second quarter of 2013. The Company did not realize any gain or loss on sales of available-for-sale securities of approximately \$14 million during the six months ended June 29, 2013. The cost of securities sold is determined based on the specific identification method.

The carrying value of the Company's remaining auction rate securities (ARS) holdings as of June 29, 2013 was \$15 million (par value \$22 million). The Company has the intent and believes it has the ability to sell these ARS within the next 12 months.

At June 29, 2013, \$149 million 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

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

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 June 29, 2013 were within one year, except those for ARS and certain long-term marketable securities. The Company's ARS have stated maturities ranging from January 2036 to December 2050. The Company's long-term marketable securities currently consist of corporate bonds. The corporate bonds have maximum stated maturities of two years. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

Table of Contents**Fair Value Measurements**

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

	Fair value measurement at reporting dates using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In millions)			
June 29, 2013				
Assets				
Classified as cash equivalents:				
Money market funds	\$ 165	\$ 165	\$	\$
Commercial paper	80		80	
Total classified as cash equivalents	\$ 245	\$ 165	\$ 80	\$
Classified as current marketable securities:				
Commercial paper	\$ 519	\$	\$ 519	\$
Time deposits	100		100	
Auction rate securities	15			15
Total classified as current marketable securities	\$ 634	\$	\$ 619	\$ 15
Classified as long-term marketable securities:				
Corporate bonds	\$ 149	\$	\$ 149	\$
Total classified as long-term marketable securities	\$ 149	\$	\$ 149	\$
Classified as other assets:				
Money market funds	\$ 18	\$ 18		