ADVANCED MICRO DEVICES INC
Form 8-K
January 24, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

January 24, 2012

Date of Report (Date of earliest event reported)

ADVANCED MICRO DEVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**001-07882**	**94-1692300**

(State of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification Number)**

One AMD Place

P.O. Box 3453

Sunnyvale, California 94088-3453

(Address of principal executive offices) (Zip Code)

(408) 749-4000

(Registrant s telephone number, including area code)

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

Item 7.01 Regulation FD Disclosure.

The information in this report furnished pursuant to Items 2.02 and 7.01, including Exhibit 99.1 and 99.2 attached hereto, shall not be deemed filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities of that section. It may only be incorporated by reference in another filing under the Exchange Act or the Securities Act of 1933, as amended, if such subsequent filing specifically references the information furnished pursuant to Items 2.02 and 7.01 of this report.

On January 24, 2012, Advanced Micro Devices, Inc. (the Company) announced its financial position and results of operations as of and for its fiscal quarter ended December 31, 2011 and for the fiscal year then ended in a press release that is attached hereto as Exhibit 99.1. Attached hereto as Exhibit 99.2 is financial information and commentary by Thomas J. Seifert, Senior Vice President and the Chief Financial Officer of the Company regarding the Company s fiscal quarter and year ended December 31, 2011.

During fiscal 2010, the Company accounted for its investment in GLOBALFOUNDRIES Inc. (GF) under the equity method of accounting. During fiscal 2011, the Company accounted for its investment in GF under the cost method of accounting. To supplement the Company s financial results presented on a U.S. GAAP (GAAP) basis, the Company s earnings release contains non-GAAP financial measures, including non-GAAP net income excluding GF related items, non-GAAP operating income, non-GAAP net income, non-GAAP earnings per share, non-GAAP gross margin, Adjusted EBITDA, and non-GAAP adjusted free cash flow. The Company believes that this non-GAAP presentation makes it easier for investors to compare current and historical periods operating results and that it assists investors in comparing the Company s performance across reporting periods on a consistent basis by excluding items that it does not believe are indicative of its core operating performance.

To derive non-GAAP net income for the fourth fiscal quarter of 2011, the Company excluded a non-cash impairment charge related to its investment in GF, the amortization of acquired intangible assets, a loss related to its repurchase of certain outstanding indebtedness, net restructuring charges and a loss from discontinued operations.

To derive non-GAAP net income for the third fiscal quarter of 2011, the Company excluded the amortization of acquired intangible assets and a loss related to its repurchase of certain outstanding indebtedness.

To derive non-GAAP net income for the fourth fiscal quarter of 2010, the Company excluded the equity income (loss) and dilution gain in investee, net, the amortization of acquired intangible assets, a gain from a legal settlement, income tax related to a legal settlement and gain on investment sale.

To derive non-GAAP net income for fiscal 2011, the Company excluded the equity income (loss) and dilution gain in investee, net, a payment to GF, a non-cash impairment charge related to its investment in GF, the amortization of acquired intangible assets, a charge related to a legal settlement, a loss related to its repurchase of certain outstanding indebtedness, net restructuring charges and a loss from discontinued operations.

To derive non-GAAP net income for fiscal 2010, the Company excluded the gross margin benefit due to the deconsolidation of GF, the deconsolidation gain based on the fair value assessment of its investment in GF, the equity income (loss) and dilution gain in investee, net, the amortization of acquired intangible assets, a gain from a legal settlement, income tax related to a legal settlement, the gain on investment sale, a loss related to its repurchase of certain outstanding indebtedness and certain restructuring reversals.

To derive non-GAAP operating income for the third and fourth fiscal quarters of 2011, the Company excluded the amortization of acquired intangible assets. For the fourth fiscal quarter of 2011, the Company further excluded certain restructuring charges and reversals, net.

To derive non-GAAP operating income (loss) for the fourth fiscal quarter of 2010, the Company excluded the amortization of acquired intangible assets and a gain from a legal settlement.

To derive non-GAAP operating income for fiscal 2011, the Company excluded a payment to GF, the amortization of acquired intangible assets, a charge related to a legal settlement and certain restructuring charges and reversals, net.

To derive non-GAAP operating income for fiscal 2010, the Company excluded the gross margin benefit due the deconsolidation of GF, the amortization of acquired intangible assets, a gain from a legal settlement and certain restructuring reversals.

To derive non-GAAP gross margin for the Company for fiscal 2011, the Company excluded a payment to GF and a charge related to a legal settlement.

To derive non-GAAP gross margin for the Company for fiscal 2010, the Company excluded the gross margin benefit due to the deconsolidation of GF.

Specifically, these non-GAAP financial measures reflect adjustments based on the following:

Gross margin benefit due to the deconsolidation of GF: The deconsolidation of GF s results of operations from the Company s results of operations resulted in incremental gross margin benefit in the first fiscal quarter of 2010 when compared to AMD Product Company in prior periods. AMD Product Company historically referred to the results of operations of Advanced Micro Devices, Inc. on a stand-alone basis, which were derived by excluding from the Company s consolidated operating results the operating results of the Company s former Foundry segment and certain Intersegment Eliminations consisting of revenues, cost of sales, and profits on inventory between AMD Product Company and the Foundry segment. The incremental gross margin benefit was partially attributable to the elimination of the mark-up charged by GF from the value of inventory as of the beginning of the first fiscal quarter of 2010. In addition, in the first fiscal quarter of 2010, the Company updated its inventory standard costs process with respect to inventory purchased from GF. The Company excluded this item from the Company s GAAP net income, GAAP operating income and GAAP gross margin for fiscal 2010 because it is not indicative of ongoing operating performance and because the Company believes exclusion of this item enables investors to better evaluate the Company s current operating performance with prior periods.

Deconsolidation gain on the fair value assessment of investment in GF: Effective as of the first fiscal quarter of 2010, the Company deconsolidated the results of operations of GF and through December 25, 2010, accounted for its investment in GF under the equity method of accounting. Under the accounting guidelines pertaining to deconsolidation, the Company was required to record its opening investment in GF at fair value as of the date of deconsolidation. The difference between this initial fair value of the investment in GF and the net carrying book value was recognized as a gain or loss in earnings. During the first fiscal quarter of 2010, the Company completed a valuation analysis to determine the initial fair value of its investment in GF. Based on this analysis, in the first fiscal quarter of 2010, the Company recognized a non-cash, one-time gain related to the deconsolidation of approximately $325 million. The Company excluded this gain from the Company s GAAP net income for fiscal 2010 because it is not indicative of ongoing operating performance.

Equity income (loss) and dilution gain in investee, net: The equity income (loss) and dilution gain in investee, net, primarily consists of the Company s proportionate share of GF s losses for the period based on the Company s ownership percentage of GF s Class A Preferred Shares and, to the extent applicable, the gain or loss on dilution of the Company s ownership interest in GF as a result of capital infusions into GF by ATIC. The Company excluded this item from the Company s GAAP net income for fiscal 2011, the fourth fiscal quarter of 2010, and fiscal 2010, because the Company believes it is important for investors to have visibility into the Company s financial results excluding the financial results of GF and GF related items that are not indicative of the Company s ongoing operating performance.

Payment to GF: In the first fiscal quarter of 2011, the Company incurred a charge of $24 million in cost of sales related to a payment to GF in the form of cash and GF Class A Preferred Shares that the Company owned. This payment primarily related to certain manufacturing assets of GF, which did not benefit the Company. The Company excluded this item from the Company s GAAP net income, GAAP operating income, and GAAP gross margin for fiscal 2011 because it is not indicative of ongoing operating performance and because the Company believes exclusion of this item enables investors to better evaluate the Company s current operating performance with prior periods.

Impairment of investment in GF: During the fourth fiscal quarter of 2011, the Company recorded a non-cash impairment charge of approximately $209 million. The impairment charge was recorded based on the difference between the carrying value and the fair value of the investment as of December 31, 2011. The fair value of the Company s GF investment was determined by a valuation analysis of GF s Class A Preferred Shares, which the Company performed in the fourth fiscal quarter of 2011. The valuation was performed in the fourth quarter as the Company reviewed indications of impairment, including revised financial projections which the Company received from GF. As these are long range projections, the Company concluded the decline in fair value is other than temporary. The Company excluded this charge from the Company s GAAP net income (loss) for the fourth fiscal quarter of 2011 and fiscal 2011 because the Company believes it is important for investors to have visibility into the Company s financial results excluding the impact of GF related items that are not indicative of the Company s ongoing operating performance.

Amortization of acquired intangible assets: The Company incurred significant expenses in connection with the ATI acquisition, which it would not have otherwise incurred and which the Company believes are not indicative of ongoing performance. These expenses included the amortization expense of acquired intangible assets. The Company excluded this item from the Company s GAAP net income (loss) and GAAP operating income for all periods presented in order to enable investors to better evaluate its current operating performance compared with prior periods and because these expenses are not indicative of ongoing operating performance.

Legal settlement: In the first fiscal quarter of 2011, the Company recorded a charge of approximately $5 million to cost of sales related to a legal settlement. In addition, in the fourth fiscal quarter of 2010, the Company entered into a Patent License and Settlement Agreement with Samsung Electronics Co.. Pursuant to the settlement agreement, the Company received an aggregate of $283 million, less applicable withholding taxes. The Company recorded a gain of $283 million in connection with this agreement for the fourth fiscal quarter of 2010. The Company excluded the $5 million charge from its GAAP net income, GAAP operating income and GAAP gross margin for fiscal 2011, and the $283 million gain from its GAAP net income and GAAP operating income for the fourth fiscal quarter of 2010 and fiscal 2010 because they are not indicative of ongoing operating performance.

Income tax related to legal settlement: In the fourth fiscal quarter of 2010, the Company entered into a Patent License and Settlement Agreement with Samsung Electronics Co.. Pursuant to the settlement agreement, the Company received an aggregate of $283 million, less applicable withholding taxes. The Company recorded a $47 million tax provision in connection with this agreement in the fourth fiscal quarter of 2010. The Company excluded this item from the Company s GAAP net income for the fourth fiscal quarter of 2010 and for fiscal 2010 because it is not indicative of ongoing operating performance.

Gain on investment sale: During fiscal 2010, the Company sold a portion of its marketable securities and recognized gains on these sales. The Company excluded the effect of these gains from its GAAP net income for the fourth fiscal quarter of 2010 and fiscal 2010 because they are not indicative of ongoing operating performance.

Loss on debt repurchase: Loss on debt repurchase represents the net loss that the Company recognized during the applicable period from its partial repurchase of certain outstanding indebtedness. During the fourth fiscal quarter of 2011, the Company repurchased an aggregate of $50 million principal amount of its 6.00% Convertible Senior Notes due 2015 (6.00% Notes) resulting in a loss of $1 million. During the third fiscal quarter of 2011, the Company repurchased an aggregate of $150 million principal amount of its 6.00% Notes resulting in a loss of $5 million. During fiscal 2010, the Company repurchased an aggregate of $1,016 million principal amount of its 6.00% Notes resulting in a loss of $24 million. The Company excluded these losses from the Company s GAAP net income (loss) for the third and fourth fiscal quarters of 2011, fiscal 2011 and fiscal 2010 because they are is not indicative of ongoing operating performance.

Restructuring (charges) and reversals, net: During the fourth fiscal quarter of 2011, the Company implemented a restructuring plan to strengthen the Company s competitive positioning, implement a more competitive cost structure and conduct a workforce rebalancing to better address faster growing market segments. As a result of this restructuring plan, the Company incurred a restructuring charge during the fourth fiscal quarter of 2011 primarily related to severance and costs related to the continuation of certain employee benefits, contract or program termination cost and, asset impairments. The Company excluded these restructuring charges and reversals from the Company s GAAP net income (loss) and GAAP operating income for the fourth fiscal quarter of 2011 and for fiscal 2011 and 2010 because they are not indicative of ongoing performance.

Loss from discontinued operations: In the fourth fiscal quarter of 2008, the Company sold its Digital Television business unit to Broadcom Corporation. The Company had classified its Digital Television unit as discontinued operations at the time it decided to divest the business unit. Pursuant to the asset sale agreement, Broadcom had three years after the closing date to obtain reimbursement from the Company for a portion of any severance costs that Broadcom incurred during this time period to the extent the severance costs related to any of the Company s former employees. The loss from discontinued operations represents payments to Broadcom in the fourth fiscal quarter of 2011. The Company excluded this loss from the Company s GAAP net income (loss) for the fourth fiscal quarter of 2011 and fiscal 2011 because it is not indicative of ongoing operating performance.

In addition, the Company presented Adjusted EBITDA in the earnings release as a supplemental measure of its performance. Adjusted EBITDA for the Company is determined by adjusting operating income for depreciation and amortization, employee stock-based compensation expense and amortization of acquired intangible assets. In addition, for the fourth quarter of 2011 and fiscal 2011, the Company included an adjustment for restructuring charges and reversals, net; for the fourth quarter of 2010 and fiscal 2010, the Company also included an adjustment related to its legal settlement with Samsung; and for fiscal 2011, the Company also included an adjustment related to a payment to GF.

The Company calculates and communicates Adjusted EBITDA in the financial schedules because the Company s management believes it is of importance to investors and lenders in relation to its overall capital structure and its ability to borrow additional funds. In addition, the Company presents Adjusted EBITDA because it believes this measure assists investors in comparing its performance across reporting periods on a consistent basis by excluding items that the Company does not believe are indicative of its core operating performance.

The Company s calculation of Adjusted EBITDA may or may not be consistent with the calculation of this measure by other companies in the same industry. Investors should not view Adjusted EBITDA as an alternative to the GAAP operating measure of operating income (loss) or GAAP liquidity measures of cash flows from operating, investing and financing activities. In addition, Adjusted EBITDA does not take into account changes in certain assets and liabilities as well as interest and income taxes that can affect cash flows.

Starting in the first quarter of 2010, the Company also presents non-GAAP adjusted free cash flow in the earnings release as a supplemental measure of its performance. In 2008 and 2009, the Company and certain of its subsidiaries (collectively, the AMD Parties) entered into supplier agreements with IBM Credit LLC and certain of its subsidiaries (collectively, the IBM Parties). Pursuant to these supplier agreements, the AMD Parties sold to the IBM Parties invoices of selected distributor customers. Because the Company does not recognize revenue until its distributors sell its products to their customers, under GAAP, the Company classified funds received from the IBM Parties as debt on the balance sheet. Moreover, for cash flow purposes, these funds were classified as cash flows from financing activities. When a distributor paid the applicable IBM Party, the Company reduced the distributor s accounts receivable and the corresponding debt resulting in a non-cash accounting entry. Because the Company did not receive the cash from the distributor to reduce the accounts receivable, the distributor s payment was never reflected in the Company s cash flows from operating activities.

Non-GAAP adjusted free cash flow for the Company was determined by adding the distributors payments to the IBM Parties to GAAP net cash provided by (used in) operating activities. This amount was then further adjusted by subtracting capital expenditures. Generally, under GAAP, the reduction in accounts receivable is assumed to be a source of operating cash flows. Therefore, the Company believes that treating the payments from its distributor customers to the IBM Parties as if the Company actually received the cash from the distributor and then used that cash to pay down the debt is more reflective of the economic substance of the transaction. On February 11, 2011, the Company terminated its supplier agreements with IBM Parties. As a result, during the third quarter of 2011, there were no outstanding invoices related to the financing arrangement with the IBM Parties, and starting from the fiscal third quarter of 2011, the Company no longer makes any adjustments for distributor payments to the IBM Parties to its GAAP net cash provided by (used in) operating activities when calculating non-GAAP adjusted free cash flow.

The Company calculates and communicates non-GAAP adjusted free cash flow in the financial schedules because the Company s management believes it is of importance to investors to understand the nature of these cash flows. The Company s calculation of non-GAAP adjusted free cash flow may or may not be consistent with the calculation of this measure by other companies in the same industry. Investors should not view non-GAAP adjusted free cash flow as an alternative to GAAP liquidity measures of cash flows from operating or financing activities. The Company has provided reconciliations within the press release and financial schedules of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

Management does not intend the presentation of these non-GAAP measures to be considered in isolation or as a substitute for results prepared in accordance with GAAP. These non-GAAP measures should be read only in conjunction with the Company s consolidated financial statements prepared in accordance with GAAP.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Press release dated January 24, 2012.
99.2	Financial Information and Commentary on Fourth Quarter of Fiscal Year 2011and Fiscal 2011 Results

SIGNATURES

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

Date: January 24, 2012

ADVANCED MICRO DEVICES, INC.

By:	/s/ Faina Roeder
Name:	**Faina Roeder**
Title:	**Assistant Secretary**

INDEX TO EXHIBITS

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